MEDIA FUTURES 1999

the attention economy / marketing and communities
understanding the internet / TV – a digital revolution
new media, new questions, new answers
interactive strategy: FAQs

The Henley Centre

Media Futures 1999

- 1993 ~ Three students at the University of Illinois created the first Web Browser
- 1994 ~ Time Warner launched the Full Service Network in Orlando, Florida – it was the world's first broadband, interactive TV trial
- 1995 ~ Bill Gates told his employees that they must make all their products "*eat, drink, sleep, run, walk, swim and fly on the Internet*"
- 1996 ~ One in fifty UK households had access to the Internet
- 1997 ~ Dell Computers Inc was selling $2m worth of computers every day over the Internet
- 1998 ~ One in five UK households has access to the Internet

Over the next five years, the pace of change will accelerate as digital media drive innovation across the whole economy and every industry.

Media Futures 1999 is a definitive guide to understanding new media and an essential reference for all organisations who have an interest in media-related issues.

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Media Futures 1999

Introduction

Media Futures 1999 is the definitive guide to understanding new media and an essential reference for all organisations who have an interest in media-related issues. Our programme has been designed to enhance your strategic planning in a rapidly changing media environment.

As in previous editions of *Media Futures*, we take the distinctive perspective of understanding technology in the context of ordinary people. The way people choose to use and interact with technology is always more crucial to its development than the capabilities of the technology itself. *Media Futures 1999* considers how consumers are going to integrate new media (for example, the Internet and digital television) into their everyday lives. We explore the potential for various modes of technology use – information, communication, entertainment and transaction – and how willing consumers are to pay for these new media services. Again, the consumer is taken as the first and last point of reference in the analysis.

The 1999 edition of *Media Futures* is the fourth in the series. In the introduction to the first *Media Futures*, published six years ago, there is a description of the changing consumer media market, brought about by the adoption of new media technologies such as multimedia PCs and cable/satellite television. However, 1993 turned out to be the year of the media 'wildcard'. Three students in a US University thought it would be cool to design a piece of software that allowed ordinary PCs to access an academic computer backwater – the World Wide Web. So, in many ways, 1993 ushered in the new media age as well as the first edition of *Media Futures*! Since then, the rate of development has been rapid:

- 1993 ~ Three students at the University of Illinois created the first Web Browser

- 1994 ~ Time-Warner launched the Full Service Network in Orlando, Florida – the world's first broadband, interactive TV trial.

- 1995 ~ Bill Gates told his employees that they must make all their products "*eat, drink, sleep, run, walk, swim and fly on the Internet*".

- 1996 ~ One in fifty UK households had access to the Internet.

- 1997 ~ Dell Computers Inc. was selling $2m worth of computers every day over the Internet.

- 1998 ~ Digital TV was launched in the UK.

- 1999 ~ One in five UK households have access to the Internet.

Over the next five years, the pace of change will accelerate as digital media drive innovation across the whole economy and every industry. Intensifying competition will create burgeoning consumer choice. This increase in choice will outstrip any growth in consumers' disposable income and time. If overall media consumption remains static, it will present huge challenges – both for advertisers trying to make the best use of their marketing budget, and for media owners seeking maximum returns on their investment in content, production and distribution. Opportunities for companies to boost profits will exist only at the margins of consumer behaviour. Minor changes in time and money spend will, over time, make all the difference between success and failure for a distribution channel.

Understanding this process is absolutely crucial for companies who wish to prosper in the future. *Media Futures* is designed to help you not only to understand the threats to the media economy, but also to act upon them and turn them into opportunities. *Media Futures 1999* contains groundbreaking research into consumers' allocation of their core resources – time and money – across traditional and new media. This research is contained within COMMET, The Henley Centre's unique, proprietary model of consumer behaviour that builds on ten years of high-quality tracking data for each media sector. Our first chapter of *Media Futures 1999*, 'The Attention Economy', describes and analyses the findings and trends highlighted by COMMET. It also provides forecasts of consumer spending (time and money) on the media until 2003.

'The attention economy' looks at how consumers change the allocation of their time and money budgets across the whole media industry – from books to video games, and from cinema to magazines. This allows individual media shares of time and money to be defined and forecast. Our analysis is further refined by drawing on consumer research to explore how consumers place subjective value on the media that they use, thus giving an insight into different styles of media consumption.

The flexibility of COMMET allows new perspectives and segmentations of the media to be developed from a consumer standpoint. For example, we segment consumers' use of and spend on media in terms of: viewing, listening, reading and interacting; screen versus non-screen; choice versus non-choice.

Finally, the chapter examines the implications of huge increases in media output – 'a Niagara of supply' – in the context of the 'pint glass' of consumer demand.

'The attention economy' will be invaluable in answering questions such as: how should we allocate marketing resources between media? What will be the competitive impact of new media? What are the future opportunities open to us? How will an economic downturn affect the media industry? What drivers are important to individual media?

The second chapter, 'Communities and marketing', locates the findings of 'The attention economy' within the broader consumer context, and also takes account of the arrival of digital network technologies. The confident consumer of today, allied with the technological capabilities of the Internet, make up the ingredients for an unprecedented shift of power from the producers of goods and services to the customers who buy them.

'Communities and marketing' explores the emergence of the Internet as a technology that facilitates the formation of virtual *communities of interest.* These communities are the crucible in which new forms of consumer participation and empowerment are taking shape in the marketplace. 'Communities and marketing' offers a new way of thinking about marketing in a digital networked environment. The chapter draws on the experience of other companies in this area so that their mistakes and successes can be learnt from, we also describe a process for developing and evaluating a virtual community for marketing purposes.

Following the 'broad-brush' perspective of the first two chapters, we then examine in more detail two technologies that are shaking up the status quo: the Internet and digital television.

Chapter 3, 'Understanding the Internet', goes back to basics. It describes the nature and evolution of the Internet, and then sets out the probable 'trajectory' of its future development. New technologies with such unique properties as the Internet are very hard to conceptualise. Without proper conceptual tools and models, strategic thinking can be very difficult. 'Understanding the Internet' develops the metaphor of the City to illuminate what the Internet is today, how it might develop and what this implies for companies developing Internet strategies.

This chapter includes a predictive consumer segmentation, based on consumer's confidence in and use of interactive media. The segmentation describes the lifestyles, values and attitudes of both current and potential Internet users. In this way, it allows an understanding of Internet users as people first, and as Net users second – it explores who they are when they are not surfing or using media technology. From this, we can examine how consumption of other media are affected by Internet use, a relationship which we call the 'media reflex'. We describe how the media perform in satisfying the particular needs of consumers – needs which are classified as: informing; knowing; planning; comparing; buying; selling; stimulating; entertaining; telling; and discussing.

'Understanding the Internet' draws on consumer research from BMRB's Internet Monitor to answer the key questions about consumer's on-line behaviour. The chapter looks at trends in people's use of the Internet – where they use it, as well as for how long they use it. We also take a closer look at what users are doing on-line (shopping, chatting, downloading, etc), as well as the sort of sites that they visit and their attitudes to advertising. Finally, 'Understanding the Internet' forecasts the growth of Internet users up to 2003. It explains where consumers will be accessing the Internet from, what sort of access technologies will be used, how much money they will be spending and what they will be spending it on.

The fourth chapter, 'Television: a digital revolution' begins by describing the current state of the television market, providing a summary of the digital offers from terrestrial, cable and satellite television. Consumer attitudes towards digital television are of crucial importance, and these are explored thoroughly in the chapter – from preferences for numbers of channels and types of programming, through to attitudes towards paying for television and the much talked-about interactivity. 'Television: a digital revolution' draws on specially commissioned Media Future 1999 consumer research as well as the results of ongoing Henley Centre tracking surveys.

The launch of digital TV signals a time of unprecedented change in television, confronting the consumer not only with more choice but also with more ways of choosing. We discuss the future of the TV brand (channel vs programme) in order to throw light on the strategies that consumers will use in deciding what to watch. New patterns of viewing also create new opportunities and threats in the advertising arena – these are evaluated in detail.

Finally, 'Television: a digital revolution' explores the potential for interactivity on television (the merits of TV vs PC for interactive services). In addition, the chapter outlines the drivers that will influence take-up of digital TV, which are illustrated in three scenarios for 2003. The chapter includes The Henley Centre's five-year forecasts for the penetration of digital TV across all platforms.

Media Futures 1999's final two chapters, 'New media: new questions, new answers' and 'Interactive Strategy: FAQs', draw on the research and analysis of the previous four chapters.

'New media: new questions, new answers', the fifth chapter, presents The Henley Centre's analysis of the macro forces and trends in the media economy and raises key issues for media owners, content providers and advertisers. It synthesises the common themes that appear across the whole of *Media Futures 1999*, drawing a 'big picture' of media trends. 'New media: new questions, new answers' looks at the likely impact on consumers and companies of fragmentation and specialisation in the media sector. Using ecological and environmental models to throw new light on the issues, we explore the wider meaning of the 'digital interactive' age.

'Interactive strategy: FAQs', our sixth and final chapter, provides a practical guide to answering frequently asked questions (FAQs) about digital media from the perspective of non-media companies. The Henley Centre conducted interviews with executives in financial services, retail and FMCG companies in order to discover which issues are 'keeping them awake at night'. The resulting frequently asked questions are tackled using the findings of *Media Futures 1999* and other Henley Centre expertise.

We first pose basic questions such as, "*Do you need an interactive strategy?*" and "*What does the consumer want from interactive media?*" The chapter then develops a set of tools for looking at the integration of new distribution channels within the organisation, together with the thorny issue of brand management in a digital environment. 'Interactive strategy: FAQs' does not set out to provide complete answers to these very specific questions, as there would be a different answer for every company. Instead we guide readers around the issues and provide a framework within which to evaluate them.

MEDIA FUTURES 1999

the attention economy

1 The attention economy

1.1 Introduction

How will media consumption change in the future?
Which media will gain more of consumers' time and money and which will lose out?
How will digital television impact media usage?
To what extent will the Internet take share from traditional media?
How will interactive services change the pattern of media consumption?

The answers to these questions will determine the success of media owners, content providers and advertisers over the next five years. Over this timeframe, the increase in the number of media choices will outstrip the growth in consumers' disposable income and time. This will create profound challenges: for media owners seeking to maximise returns on investment in content production and distribution; and for advertisers seeking maximum effect from their marketing budgets. Increasingly, companies will have to find opportunities for generating revenue and profit on the margins of consumer behaviour. Small changes in time and money spend will, over time, make all the difference between a successful distribution channel and an unsuccessful one. In this environment, understanding media consumption patterns and the competitive and complementary sets for new and old media will be critical.

For this reason, The Henley Centre has conducted groundbreaking research into consumers' allocation of their core resources – time and money – across traditional and new media. This research is contained within COMMET, The Henley Centre's unique and proprietary model of consumer behaviour and the media industry. COMMET is based on the concept of the *attention economy*. The driving force of any economy is the allocation and distribution of scarce resources. In most economic models, it is the production and distribution of material goods that is the focus of analysis. Recently, several Internet commentators have put forward the idea that it is attention that will dominate the emerging cyber economy.

The concept of the *attention economy* is linked to the shift in industrialised nations towards an economy in which an increasing number of people are no longer involved directly in the production, transportation and distribution of material goods, but instead earn their living managing or dealing with information in some form. Most people call this transformation the arrival of the 'information economy'. Michael Goldhaber and other commentators argue, however, that the emerging economy is not truly an information economy but an *attention economy*. *"Attention,"* write Thomas Mandel and Gerard Van der Leun in their book *Rules of the Net, "is the hard currency of cyberspace"*. Writing in *Wired* magazine in December 1997, Michael Goldhaber said:

> *"By definition, economics is the study of how a society uses its scarce resources. And information is not scarce – especially on the Net, where it is not only abundant, but overflowing. We are drowning in information, yet constantly increasing our generation of it. So a key question arises: is there something else that flows through cyberspace, something that is scarce and desirable? There is. No one would put anything on the Internet without the hope of obtaining some. It's called attention. And the economy of attention – not information – is the natural economy of cyberspace."*

This might sound peculiar, but it works. To begin with, attention addresses a fundamental human desire. Suppose you woke up one morning, well supplied with food and other material essentials, but invisible and inaudible, unable to get noticed in any way at all. At first it might be amusing to spy and eavesdrop. But, eventually, being unable to share your encounters would become torture. Living without feedback would be for all but a few recluses barely living at all. Some minimum of attention is essential. While some of us crave huge amounts of recognition, the lure is not merely fame or a place in history, it is also interest in and praise from the people around you for what you do. As we discuss in part 2 of *Media Futures 1999* (Marketing and Communities), the Internet is enabling people to express these desires. People log on to connect with others, gossip, debate, advice and learn about those like or unlike themselves. In other words, they log on to exchange attention.

The Henley Centre believes that the concept of the *attention economy* can be a useful tool to understand not only the Internet, but the media as a whole. As an industry, the media represent one of the largest categories of activity to which consumers devote their attention, and, very often, are willing to pay for the privilege. Competition for attention is already fierce, and is intensifying as media, leisure and other product and service choices expand. Understanding how to attract and retain consumers' attention is, therefore, the key priority for media owners, content providers and advertisers. COMMET, The Henley Centre's model of the *attention economy*, focuses on how the media industry as a whole competes for attention and how individual media compete within that attention. COMMET is unique in three respects:

- It is holistic, covering a wide range of media, including advertising-funded media and non-advertising-funded media.

- It deals with *both* currencies in the *attention economy*, ie, time *and* money, whereas most media models focus on only one.

- It focuses on the decisions and trade-offs that *consumers* make in their everyday lives rather than taking an advertiser's or media owner's perspective. After all, it is the evolution of consumer behaviour that will ultimately determine the success or failure of different media and their attractiveness to advertisers.

Viewing	**Reading**	**Listening**	**Interacting**
TV: channels, terrestrial, analogue cable and satellite, digital terrestrial, digital cable and digital satellite	Newspapers: regional and national, pay-for and free sheets	Radio: BBC and commercial	Home computers (including CD-ROM)
Video: rental and sell-through	Magazines	Recorded music: CDs, tapes and records	Video games
Cinema	Books	Digital Versatile Disc (DVD)	Internet
Digital Versatile Disc (DVD)			Interactive services on digital television

We have categorised the media into four different attention activities: reading, viewing, listening and interacting. The table above lists the media included in COMMET under each of these categories.

COMMET is based on at least ten years of high-quality tracking data for each industry. This data comprises of The Henley Centre's proprietary *Leisure Tracking Survey*, which measures time spent on the media and other leisure activities, and a wide range of industry sources on media usage. (The appendix to part 1 lists the sources.) However, COMMET is not simply data driven – no useful model of the entire media industry can be. The already complex dynamics are being altered continually by developments in new and traditional media. For this reason, COMMET overlays statistical modelling with The Henley Centre's understanding of the trends impacting on consumer behaviour.

Using COMMET, we have analysed the trends in media consumption over the past ten years, and developed forecasts for the next five years. This analysis provides groundbreaking insight into how the media compete for consumers' attention. Below we present the main findings from COMMET.

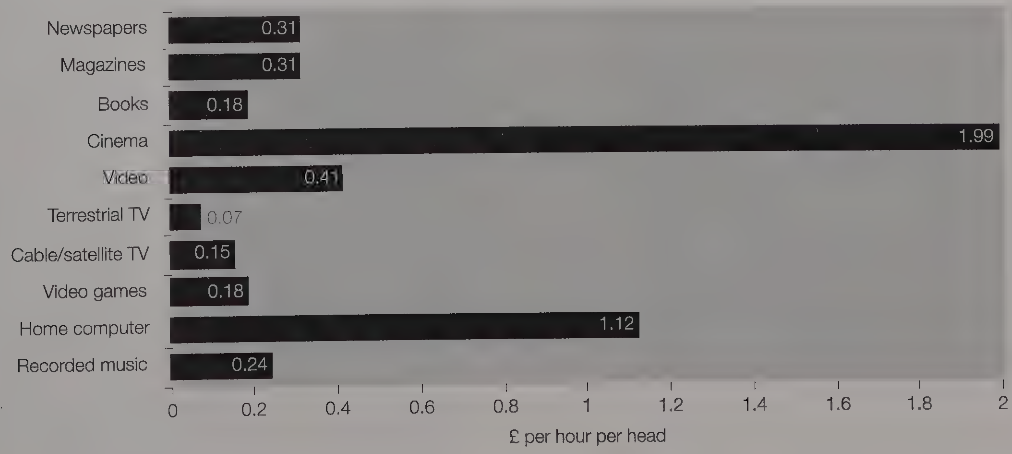
1.2 The time and money context

How we pay to consume media

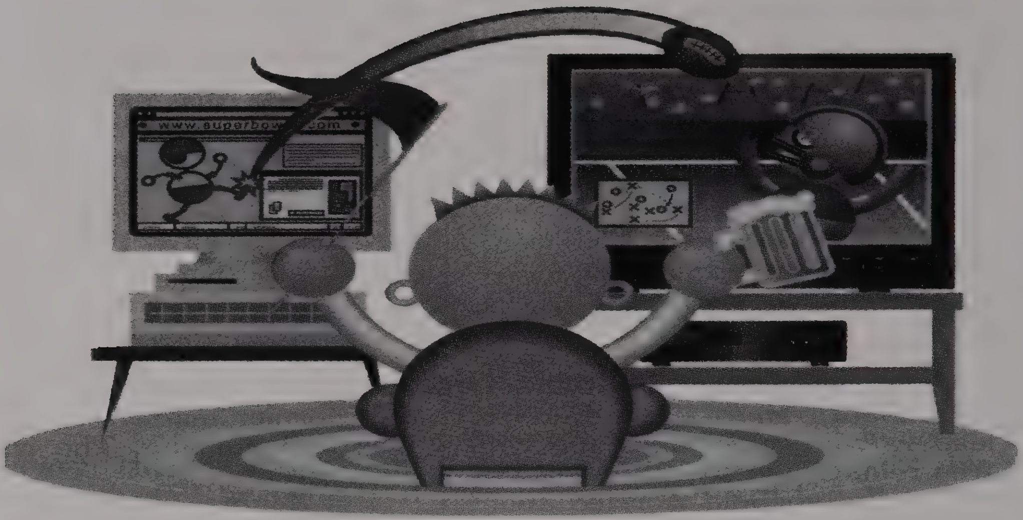
Consuming media requires the giving up of both time and money. Thus, the price of consuming media can be thought of as a combination of the time that consumers give up and the money they spend. (Media consumption also requires energy or effort, but the expenditure of energy is much harder to measure!)

The value of media consumption is a function of the quality of the experience, in terms of the pleasure or satisfaction you get out of it, and the price you have to pay. For example, going to the cinema is relatively expensive in cost-per-hour terms. On average, UK consumers spend £2 per hour on the cinema, but only 7p for an hour of TV viewing. Despite this huge cost differential, people are still prepared to pay for the cinema. The quality of the experience is worth it.

Figure 1.1 The value of a media experience £ per hour of consumption per head



Source: The Henley Centre, COMMET model



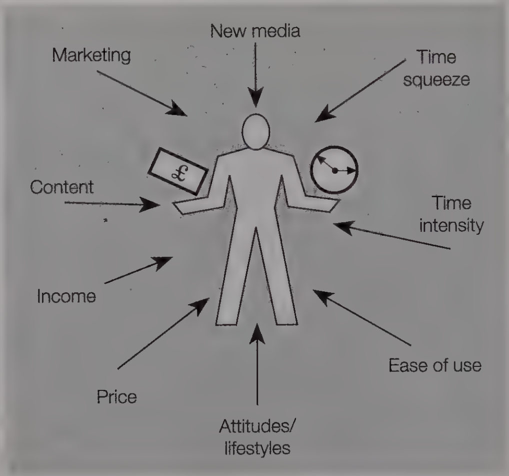
Furthermore, consumers are prepared to spend more (40p per hour in 1997 prices) for the cinema today, than they did ten years ago. The quality of the cinema experience has increased significantly over the past decade. Multiplex cinemas have better sound and visual quality, comfortable seats with drink holders, more choice and less queuing to see the latest releases. Shops, restaurants, bars and other facilities in the locality further enhance the experience. Consumers value these improvements, so the cinema has been increasing its share of media time and money over the past ten years.

What impacts media consumption?

Figure 1.2 illustrates the drivers of media consumption. Some of the factors driving media consumption are in the control of media owners: namely, price, marketing, content, the introduction of new media vehicles and the time intensity and ease of use of the medium. Other drivers lie outside media owners' control: they include consumer attitudes and lifestyles, disposable income and time squeeze.

At a macro level, one of the most important drivers of media consumption is the increasing competition for consumers' time. Time squeeze has been a Henley theme for a number of years. There are now many more things in our lives that demand our attention. As a result, the proportion of people who claim they 'never have time to get things done' has been increasing, from 53% in 1993 to 63% in 1998. Increased competition for time results from the expanding choice of leisure activities and from other calls on our time, particularly work. During the 1990s, leisure time in the UK actually fell due to increasing pressures at work and lengthening

Figure 1.2 Drivers of media consumption?



Source: The Henley Centre, Media Futures 1999

Figure 1.3 A Niagara of supply

	1988/89	1997
TV channels	4	60+
Magazine titles	2,042	2,438
Commercial radio channels	60	188
Cinema multiplex sites	14	118
Singles released	3,932	5,928
Albums released	8,752	18,386
CD-ROM titles	390	16,762
Web pages	0	132 million
Book titles released	56,514	100,029
National newspaper supplement titles	14	52

Source: The Henley Centre, COMMET model

working hours. Because time is a fundamentally limited resource and competition for it is increasing, growth in media time can only be modest at best.

There are also new calls on consumers' money budgets. The rolling back of the welfare state over the past ten years and the experience of the boom-and-bust of the late 1980s and early 1990s has heightened the need for financial planning and self-provision. As a result, consumers have been gradually shifting their expenditure away from blatant consumption towards precautionary spending on pensions, savings and insurance products. This is squeezing the amount of money left over for leisure activities, including the media.

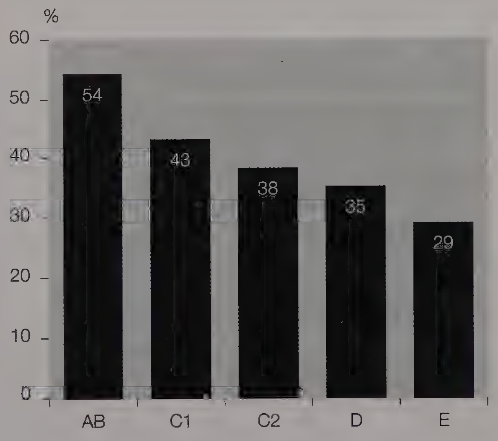
As well as competition from outside the media, there is increasing competition from within it. The introduction of new media vehicles and the proliferation of traditional media means that individual media face more competition for their share of media money and media time. For example, between 1988 and 1997 the number of consumer magazine titles increased by 19%. Over the same timeframe, new album releases increased by 110%, 128 new radio stations were launched and many people were suddenly able to access over a hundred million pages.

Towards a time-money exchange rate

For those with sufficient incomes, time squeeze drives money spend in order to save time. As we can see in figure 1.4, a significant proportion of people are willing to spend money to save time. This trend means 'pay-for' media (ie, media for which the consumer pays a one-off charge or subscription) can potentially bring value to consumers by enabling them to consume at a time that suits them and by providing a wider choice of content. It also suggests that time-saving services, such as home shopping and home banking via the Internet or digital television, will find a receptive audience, particularly amongst the most time-squeezed consumer segments.

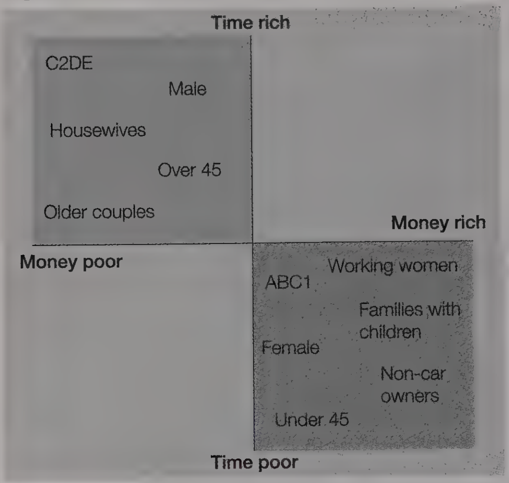
The way in which consumers trade off their time and money ultimately depends on the values they assign to each. These values will be influenced by an individual's lifestage and his or her economic and work situation. For example, at the margin, a single working mother will value time more highly than an

Figure 1.4 Spending money to save time % agreeing



Source: The Henley Centre, Media Futures 1999

Figure 1.5 A time-money segmentation



Source: The Henley Centre, Media Futures 1999

unemployed person. Therefore, different consumers face a different trade-off between time and money depending on whether they are time-rich and money-poor or money-rich and time-poor. New media, such as the Internet and digital television, present an opportunity to target these different sets of consumers with tailored offers. Being able to choose between free and pay-for media gives consumers the flexibility of paying according to their individualised time and money values. The opportunity is ripe for more individualised consumption of the media.

1.3 Sizing the media economy

In the table below we present the overall size of the media economy in terms of consumers' time and money expenditure in 1988, 1997 and 2003. The first point to make is that, in terms of both money and time, the media industry is growing. Between 1988 and 1997 the total amount of time spent on the media grew from 57.5 hours per week per head to 61.2 hours per week per head – an increase of 3.7 hours or just over 6%. The growth in the total amount of money spent on the media was far larger. In 1988, UK consumers spent £16.7 billion (1997 prices) on the media. By 1997, this figure had risen, in real terms, to £20.6 billion – an increase of £3.9 billion or 23%.

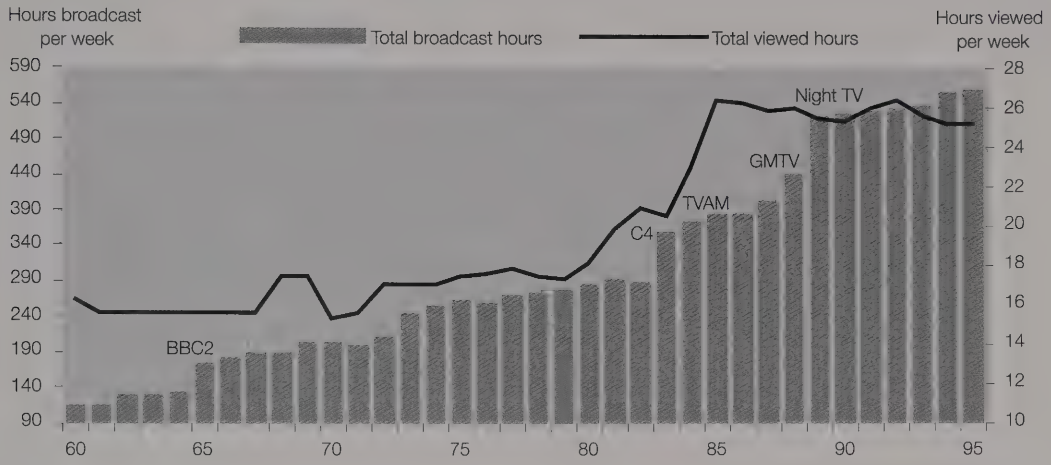
Over the next five years, we are forecasting that the media economy will continue to grow, reaching 63.6 hours per week in terms of time expenditure and £24.7 billion pounds per year in terms of money expenditure. On the surface, this picture looks relatively straightforward. However, in reality, the pattern of media consumption is more complicated. We examine the key trends behind the growth in media time and media money below.

Media time expenditure

The UK spends approximately 32% of its time consuming media. (Although in total we spend around 61 hours a week consuming media, we assume that approximately a third of the time spent listening to the radio and recorded music occurs whilst consuming other media.) By way of comparison, sleep takes up around 33% of our time and work 16%. Measured in terms of time, watching TV is still the UK's most popular leisure pursuit.

	1988	1997	2003
Total time spent on media (hours per week per head)	57.5	61.2	63.6
Total money spent on media (1997 prices)	£16.7bn	£20.6bn	£24.7bn
Media money share of real consumer expenditure	3.9%	4.1%	4.2%

Figure 1.6 Television viewing versus broadcast hours



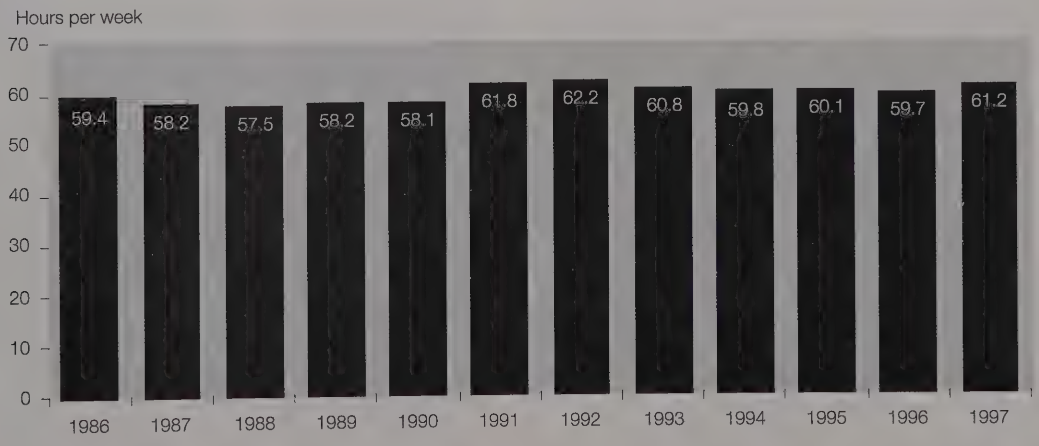
Source: The Henley Centre; BARB

Historically, the growth in media consumption was linked to the growth in media output. As media output rose, consumption tended to rise proportionately. This relationship is clearly evident for television. Figure 1.6 plots the time spent watching TV against the total broadcast hours of output for terrestrial TV. Until the mid 1980s, the increase in TV viewing correlated well with the increase in broadcast hours, driven by events such as the launch of ITV, Channel 4 and breakfast TV. By the late 1980s, the television market looked distinctly saturated – TV viewing was flat or falling. If we were to include the massive surge in TV output associated with the launch of multi-channel TV, then the picture in the 1990s would look even gloomier.

Media time and the economy

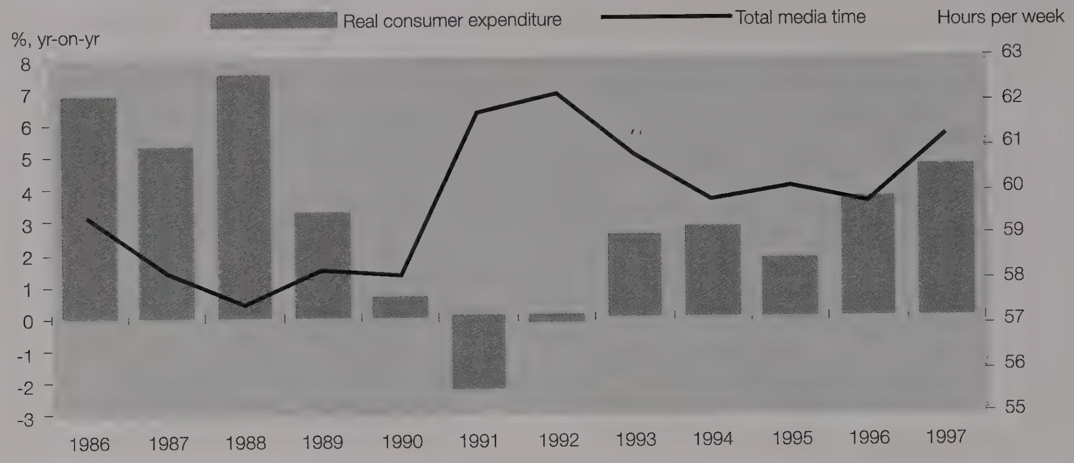
Although the total amount of time spent on the media has increased over the past ten years, the picture has not been one of uniform growth. Figure 1.7 shows the total time UK consumers spent on media each year between 1986 and 1997 – it fluctuates

Figure 1.7 Little movement in total media time



Source: The Henley Centre, COMMET model

Figure 1.8 Media time versus growth in real consumer expenditure



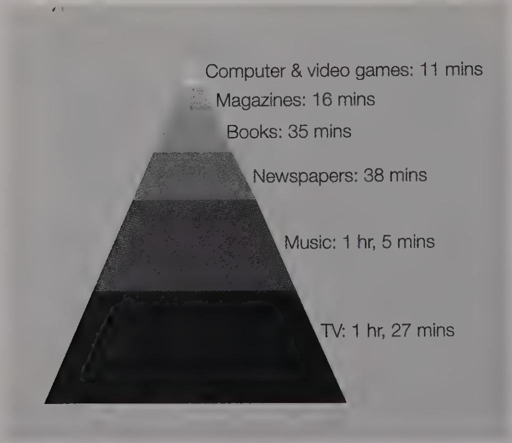
Source: The Henley Centre, COMMET model

between 58 and 62 hours per week. Figure 1.8 plots the total time spent on media against the growth in real consumers' expenditure. Until 1995, there was a negative relationship between media time and the fortunes of the economy. On average, people spent more hours per week on media during the 1991/92 recession and fewer hours per week during the late 1980s boom.

To further understand this relationship, we examined media consumption patterns during the 1991 recession. In 1991, the total time spent on the media increased by almost 4 hours a week. Increases were seen across almost all media; however, the bulk of the increase came from TV and recorded music – both media for which the marginal cost to the consumer of increased consumption is virtually zero.

The rise in unemployment goes a long way to explaining the surge in media time in the early 1990s. The unemployed consume more media than people working full-time. They have more available time to kill, and, as time-

Figure 1.9 Contributions to increase in media time Hours per week per head, 1991



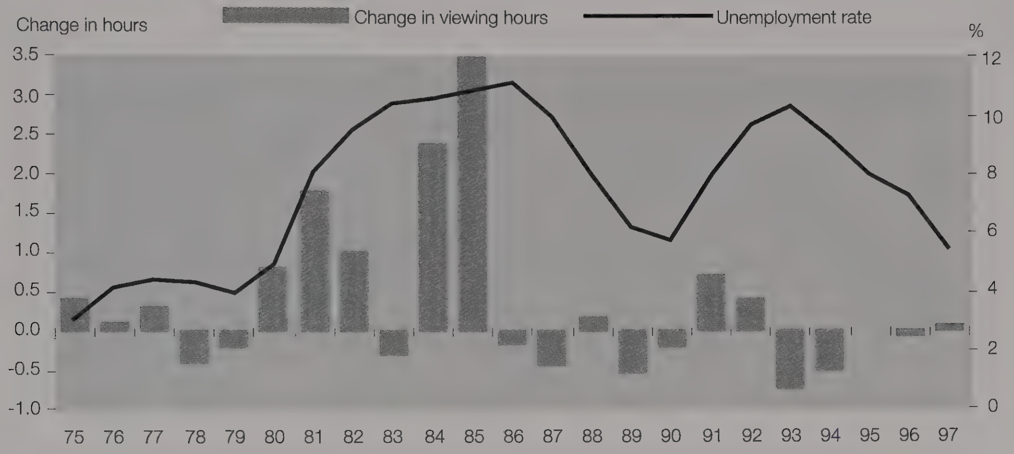
Source: The Henley Centre, COMMET model

Figure 1.10 Passing time with the media Hours per week

1991	Working full-time	Unemployed
Listening to music	1.7	2.7
Reading books	4.2	5.3
Watching TV	2.4	3.3

Source: The Henley Centre, Leisure Tracking Survey

Figure 1.11 TV viewing in relation to unemployment

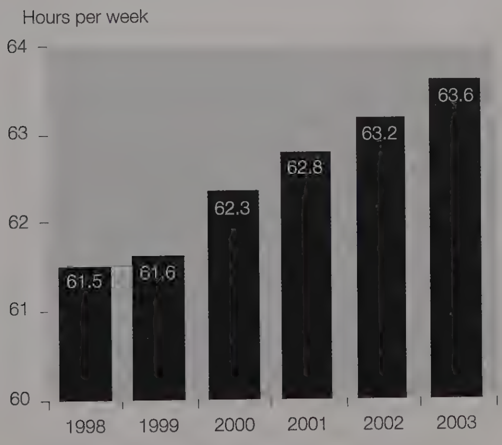


Source: The Henley Centre, COMMET model

rich, money-poor consumers, prefer time-intensive activities that are good value for money. This favours media that are cheap or free at the point of consumption, such as TV, recorded music, books and newspapers. The Henley Centre's *Leisure Tracking Survey* shows that the unemployed watch more TV than full-time workers. They also read more books and listen to more music – all cheap, but time-intensive media.

The relationship between the economy and the total time spent on the media is weaker after 1995. This raises a question about the extent to which the economy will impact on media consumption in the future. The Henley Centre is forecasting that consumer expenditure growth will slow in 1999, but not turn negative. From 2000 to 2003, we forecast that the economy will grow steadily. Historically, a growing economy has been negatively correlated with the time spent on the media, thus we might expect total media time to decrease. We are not predicting that this will be the case. Overall, we forecast that the time spent on the media will increase over the next five years, by just under two hours per week, to a total of 63.6 hours per head. The increase in media time will be driven by the growth of interactive media such as the Internet and digital television, and by an increase in the time spent on listening media, particularly recorded music. Section 4 gives further details of these forecasts.

Figure 1.12 Total media time spent 1998 to 2003

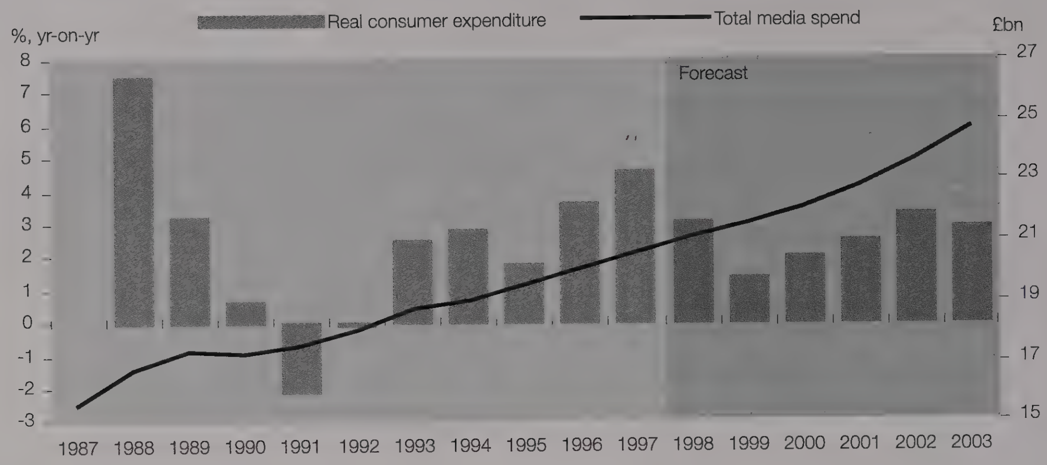


Source: The Henley Centre, COMMET model

Media money expenditure

Whereas consumers spend almost a third of their time on the media, the proportion of disposable income spent on the media is much smaller. In 1997, the UK spent £20.6bn on the media; this accounted for 4% of

Figure 1.13 Media money spend versus growth in real consumer expenditure



Source: The Henley Centre, COMMET model

consumer expenditure and approximately 3% of the total economy in terms of GDP.

At a macro level, media expenditure is positively related to the economy. Over the past ten years, the amount of money spent on the media has tended to increase with the growth in consumer expenditure. Naturally we would expect this: when people have more money in their pockets, they can afford to spend more on the media. Conversely, when consumers have less money in their pockets, there is less available to spend on the media.

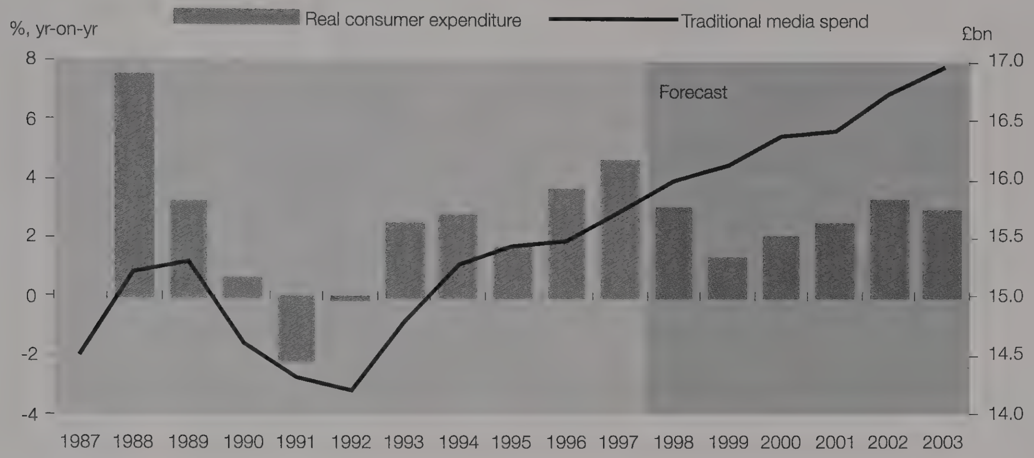
Losing spend, 1990 v 1989	**Down (real %)**
Newspapers	-2.4
TV hardware	-13.1
Video hardware	-12.8
Video tapes	-4.9
Audio hardware	-12.6
Recorded music	-10.9
Magazines	-1.6
Winning spend, 1990 v 1989	**Up (real %)**
Books	7.9
Cinema	1.4
Cable/satellite TV	40.6
Video games	29.0
Home computers	12.0

1990 is the only year since 1988 when the total money spent on the media decreased in real terms. Expenditure on media in 1990 decreased by £88 million. It was mainly traditional media that lost out, although cinema and books did well, along with new media.

If we break out media spend into expenditure on traditional and new media, we see that traditional media exhibit a higher degree of correlation with the economy. Traditional media, such as newspapers, magazines and TV and radio equipment, are all mature categories of consumer expenditure. In contrast, expenditure on new media is driven by the launch of expensive new products such as multi-channel TV, computers and video games. The early adopters of these products are relatively wealthy consumers who are better insulated from the ups and downs in the economy. Thus, consumption of the new media tends to 'buck the trend' and continues to grow, even during a downturn in the economy.

The Henley Centre is forecasting that real consumer expenditure will see sustained growth over the next five years. (The rate of

Figure 1.14 Spending on traditional media versus growth in real consumer expenditure



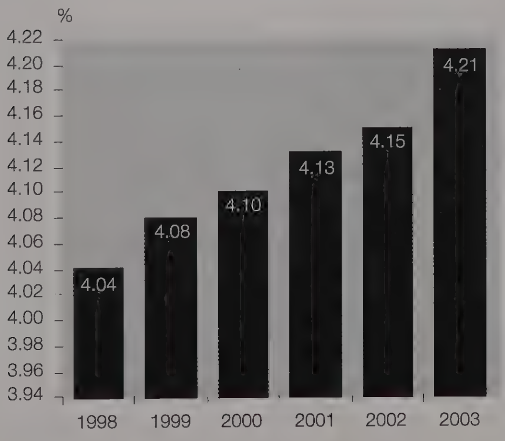
Source: The Henley Centre, COMMET model

growth will slow significantly in 1999, increase steadily to 2002, fall slightly in 2003, but will remain positive over the entire period.) This is good news for the media industry. The sustained growth in the economy will provide an opportunity for increased spending on the media. Furthermore, we predict that the proportion of consumer expenditure accounted for by the media will increase from 4.1% to 4.2% between 1997 and 2003.

Even though we think of media hardware as the most expensive part of media spending, it takes less than 40% of consumers' media money. It is day-to-day spending on the media that takes the lion's share. Breaking out media spending into hardware and software reveals that media hardware's share of spend has been decreasing. We expect this trend to continue – by 2003, expenditure on hardware will account for only 32% of total media expenditure.

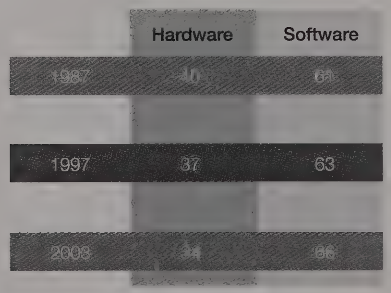
Expenditure on media software can be thought of as 'pay-for media'. The 1990s have seen significant growth in pay-for media – magazines, books, cinema, cable and satellite television and recorded music all did well.

Figure 1.15 Media spend as proportion of real consumer expenditure 1998-2003



Source: The Henley Centre, COMMET model

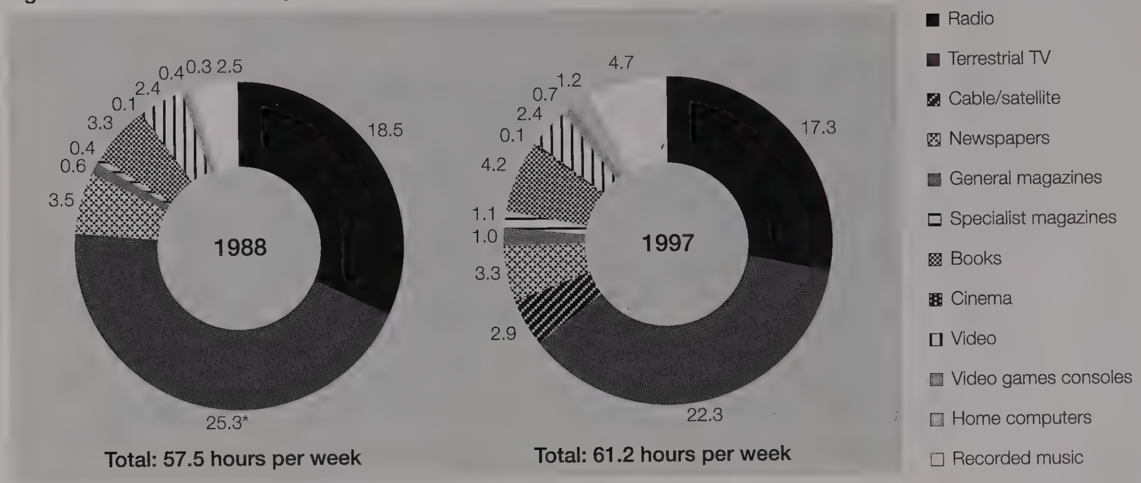
Figure 1.16 Hardware and software share 1987, 1997 and 2003, %



	Hardware	Software
1987	40	61
1997	37	63
2003	34	66

Source: The Henley Centre, COMMET model

Figure 1.17a Share of time expenditure by medium 1988 versus 1997, hours per week



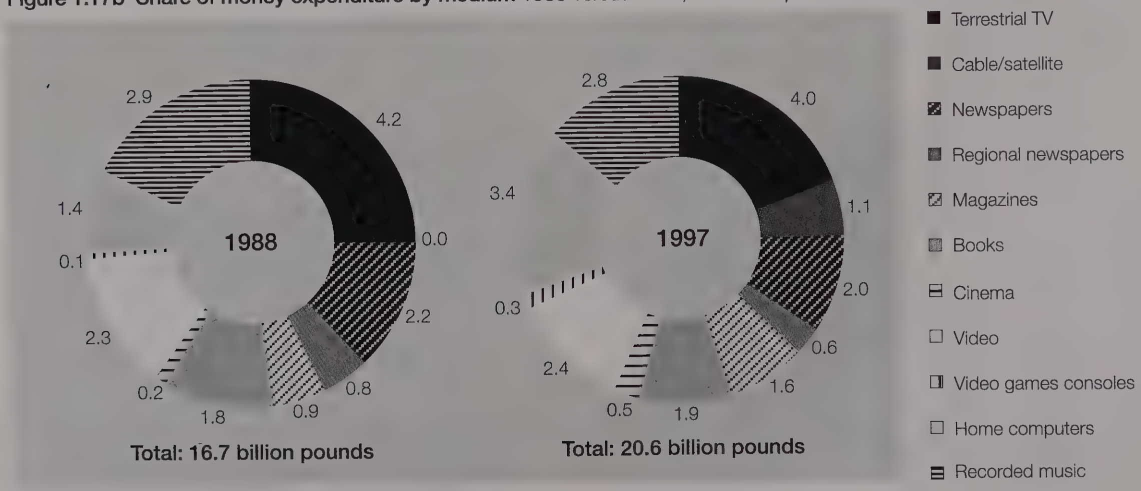
* 1988 figure is for terrestrial & cab/sat combined
Source: The Henley Centre, COMMET model

Pay-for media will continue to increase their share of media expenditure over the next five years. In particular, digital TV will enable broadcasters to experiment with new 'pay-as-you-go' pricing structures. Pay-per-view (PPV) and near-video-on-demand (NVOD) will become increasingly commonplace as more and more consumers get used to paying a one-off fee for their TV viewing.

1.4 Sharing the media economy

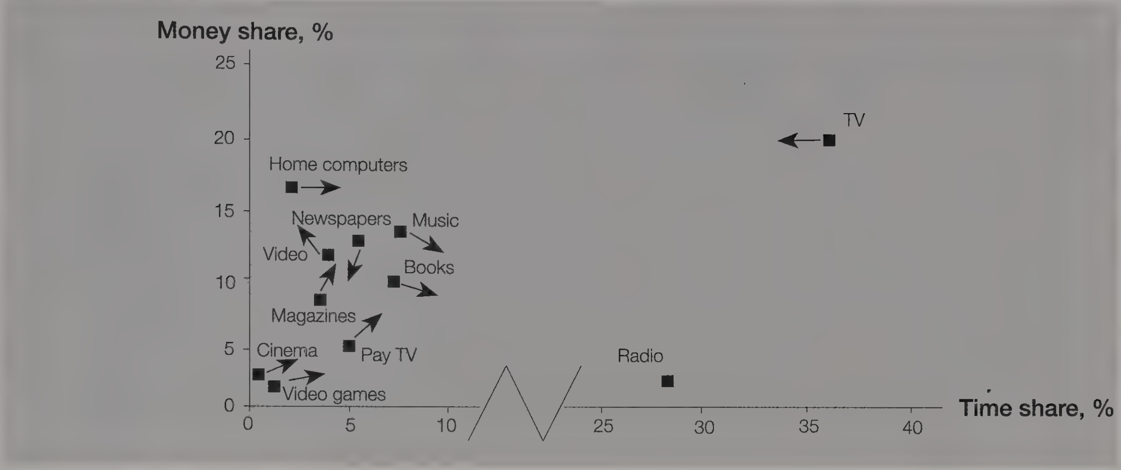
In this section we examine the share of the media economy taken by individual media and present our predictions for the winners and losers over the next five years. We then briefly discuss two key trends in media consumption: the shift towards 'choice media' and the battle for screen time.

Figure 1.17b Share of money expenditure by medium 1988 versus 1997, £bn 1997 prices



Source: The Henley Centre, COMMET model

Figure 1.18 Mapping the media, 1997 to 2003 Arrows indicate direction



Source: The Henley Centre, COMMET model

It comes as no surprise to find that TV and radio are by far the largest media in terms of time, taking, in 1997, a 41% and 28% share respectively. Equally, it is no surprise that what is large in terms of money today is not always large in terms of time. Over the next 5 years, the pattern of media consumption will change significantly. Figure 1.18 illustrates the shifts in the time and money spend on each medium. The key developments are:

- Magazines and cinema will do well, increasing their share of both time and money spend.

- Multi-channel TV will double its share of media time by 2003, driven largely by developments in digital TV. In turn, this will help to increase Pay TV's share of money spend.

- DVD (digital versatile disc), which launched in 1998, will take share from video spending. Manufacturer collaboration will help to avoid a format war like Betamax versus VHS in the 1980s, and will provide a powerful marketing push. Further, we expect backing from movie houses to lead to 150-plus movie titles available on DVD by the end of 1998.

- Home computers and video games will increase their share of time spend; however, their money share will remain fairly constant.

- In contrast, books and recorded music will increase their share of time, but lose money share.

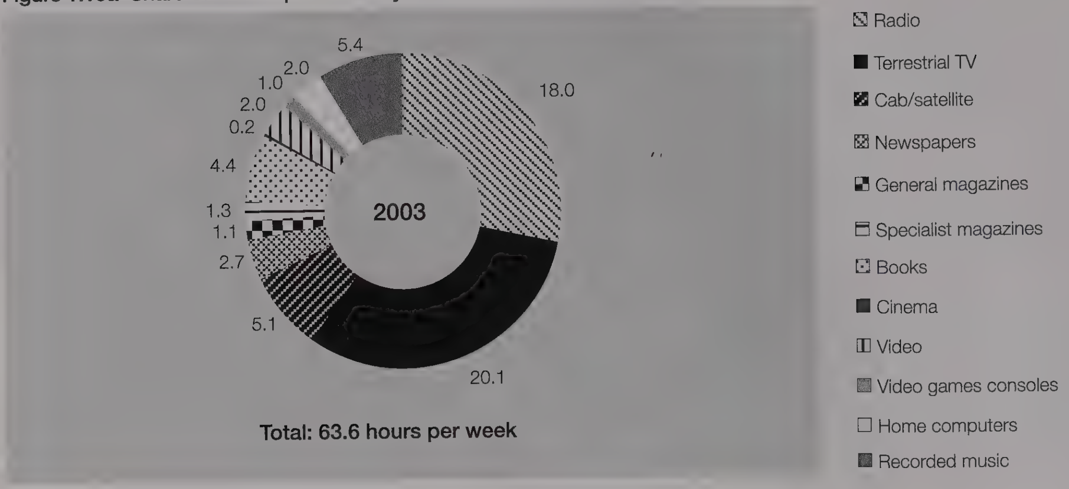
- Over the forecast period radio's share of time will increase very slightly and its share of media money will remain constant.

- The only medium that we predict will lose share of both time and money is newspapers.

Increased consumption of choice media

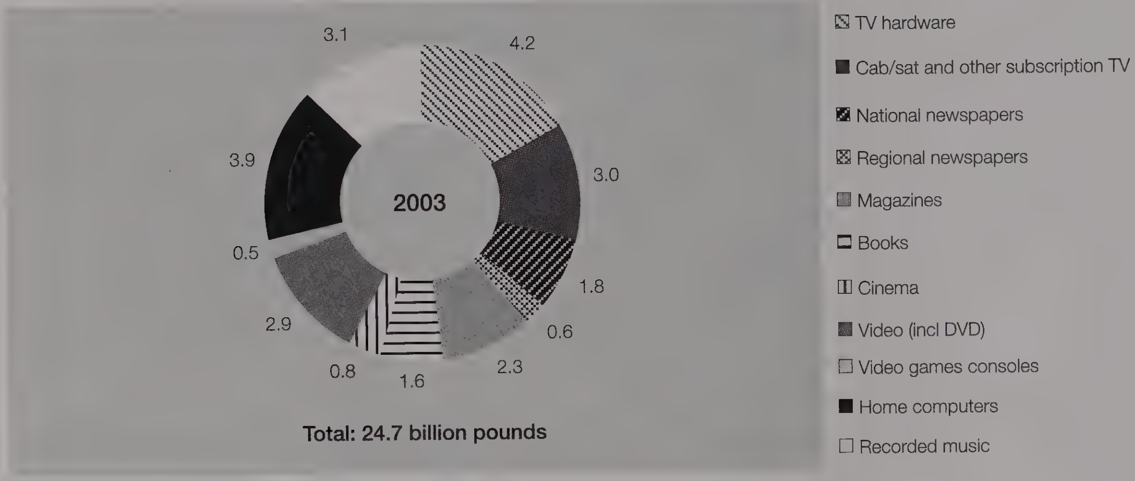
Over the past ten years, UK consumers have spent an increasing proportion of their media time and money on choice media. 'Choice media' are media that enable the consumer to decide on the time of use and, to a greater

Figure 1.19a Share of time expenditure by medium Hours per week, 2003



Source: The Henley Centre, COMMET model

Figure 1.19b Share of money expenditure by medium £bn 1997 prices, 2003



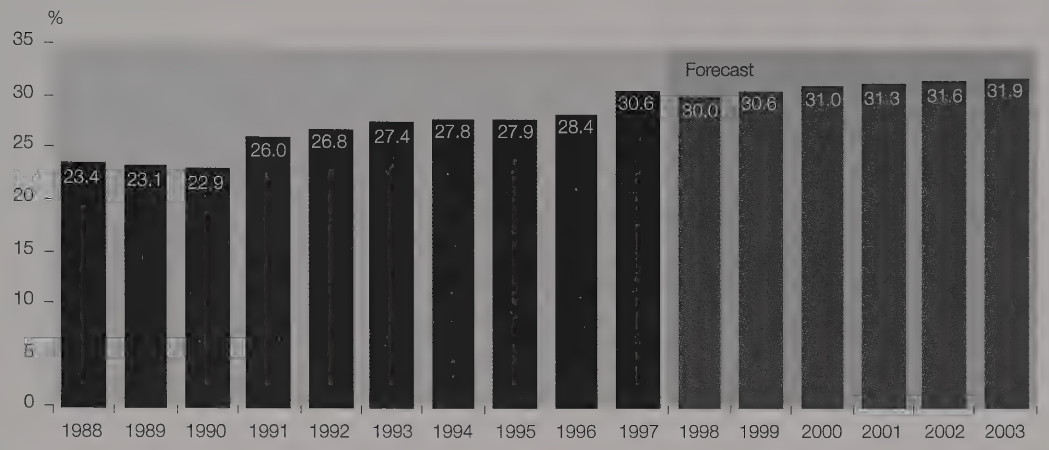
Source: The Henley Centre, COMMET model

or lesser extent, select from a wide array of content. Using this definition, we can categorise cinema, video, books, magazines, music, video games, computers and newspapers as choice media. Broadcast media, such as TV, have not traditionally been choice media, although they are moving in this direction. In particular, digital TV will increase the available content and give the consumer more flexibility on the time at which they choose to view.

Choice and control are important factors when people feel time squeezed. They represent value to consumers, value that they are increasingly seeking. In the *Media Futures 1999* survey, we examined how consumers feel about spending time consuming different media. We asked them to classify the time spent on each medium as one of the following categories:

- **Work** ~ something that you have to do for a living

Figure 1.20 **Choice media increase their share of media time** % of media time



Source: The Henley Centre, COMMET model

- **Chores** ~ something that you have to do, but don't particularly like doing

- **Pottering** ~ something that you do to pass the time

- **Quality time** ~ something that you choose to do because you enjoy it or think it is worthwhile

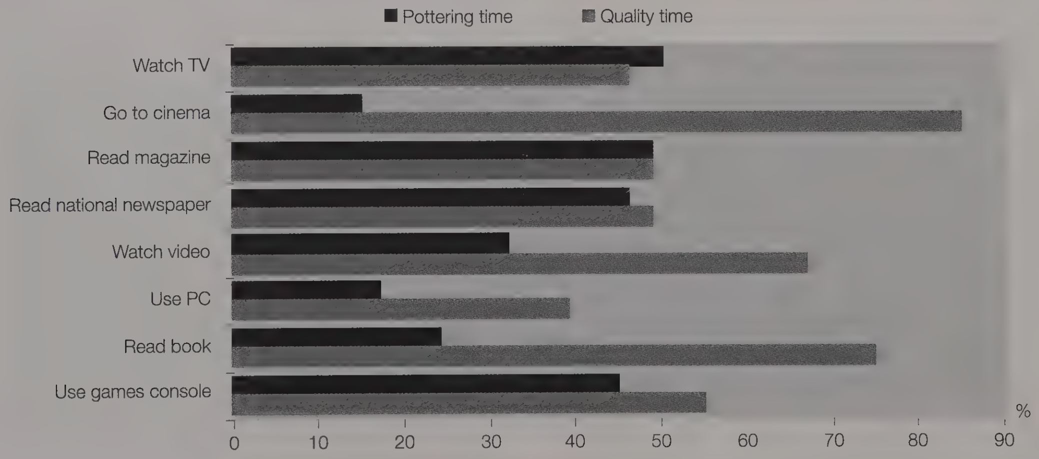
In the main, time spent on the media is either seen as 'pottering time' or 'quality time'.

Interestingly, the time spent on choice media is more likely to be regarded as quality time. This is perhaps because choice media are relatively more expensive to consume than other media in terms of money.

Screen wars

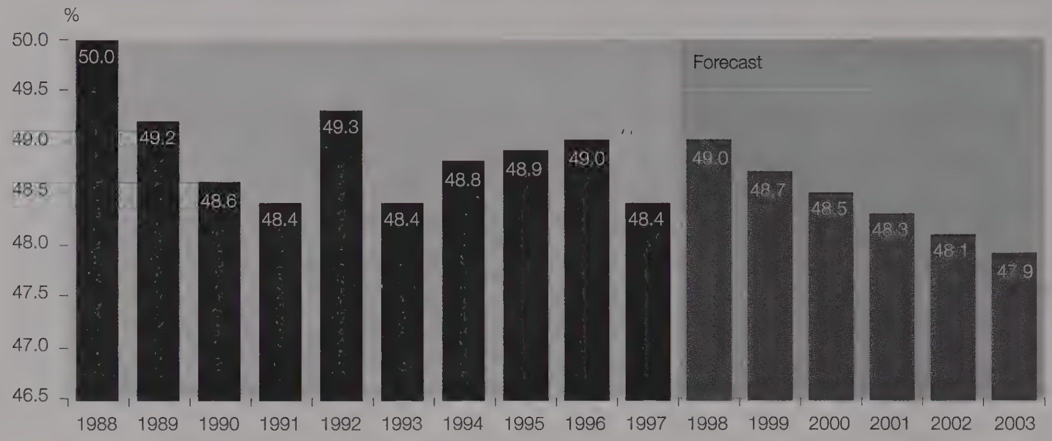
Over the past 10 years, the total amount of time spent on screen media has increased by just under an hour – from 28.8 hours per week in 1988 to 29.6 hours per week in 1997.

Figure 1.21 Consumers' perception of the time they spend



Source: The Henley Centre, Media Futures 1999

Figure 1.22 Share of time spent on screen media % of media time

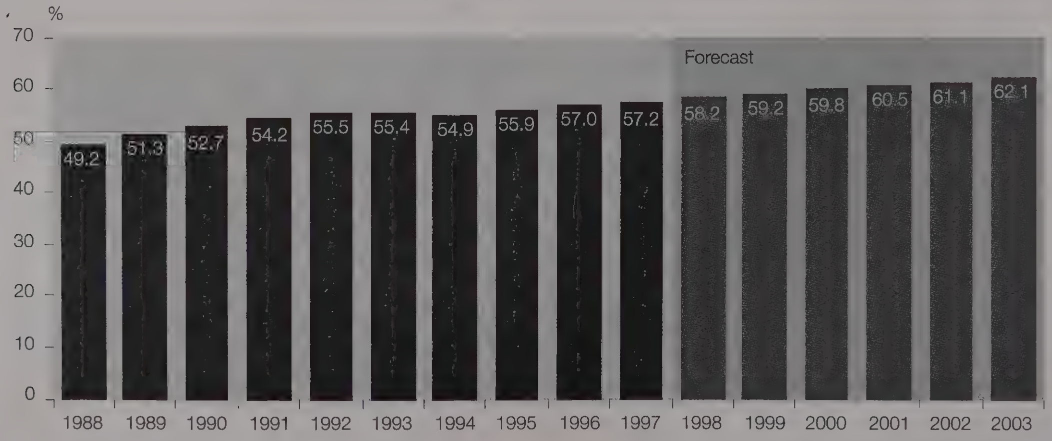


Source: The Henley Centre, COMMET model

However, the proportion of media time that people spend on screen-based media has not increased. In fact, screen media's share of media time has decreased from 50% in 1988 to 48% in 1997. This is despite the fact that there has been enormous growth in the supply of screen media with the arrival of multi-channel TV, video games, the Internet and CD-ROM. The 'losers' in the battle for screen time have been terrestrial TV and video, and the winners have been the new screen-based media, particularly computers and video games.

Over the next five years, digital TV will further increase the choice of channels and programmes, and enable the introduction of new interactive services such as PPV, NVOD, and home shopping and banking. Over the same timeframe, there will also be considerable growth in Internet penetration. In the extreme case, the increase in screen media could mean that consumers spend practically all of their free time in front of a screen! This outcome is very unlikely; instead, the battle for screen time will further intensify.

Figure 1.23 Share of money spent on screen media % of media money



Source: The Henley Centre, COMMET model

Over the next five years, we forecast that the total amount of screen time will increase by just one hour per week (overall this means that the share of time devoted to screen media will continue to decrease). The winners in the battle for screen time will be interactive media, particularly the Internet and digital TV. The losers will be traditional TV viewing, which will remain flat over the forecast period.

Although the time spent on screen media will increase only slowly, the money spend on screen media will grow more rapidly. The reason for this is that new screen media such as digital TV, computers and the Internet are relatively expensive. Over the next five years, we predict that screen media will continue to increase their share of media spend. The challenge for screen media owners will be to grab more than their 'fair' share of this additional expenditure.

1.5 The winners and losers for media time

In this section, we present The Henley Centre's forecasts for media consumption in terms of time and money. First we review our forecasts for time spend, and then we review our forecasts for money spend. Before describing the forecasts for each medium individually, we summarise the overall trends for each of the four main categories of media consumption: viewing, listening, reading and interacting.

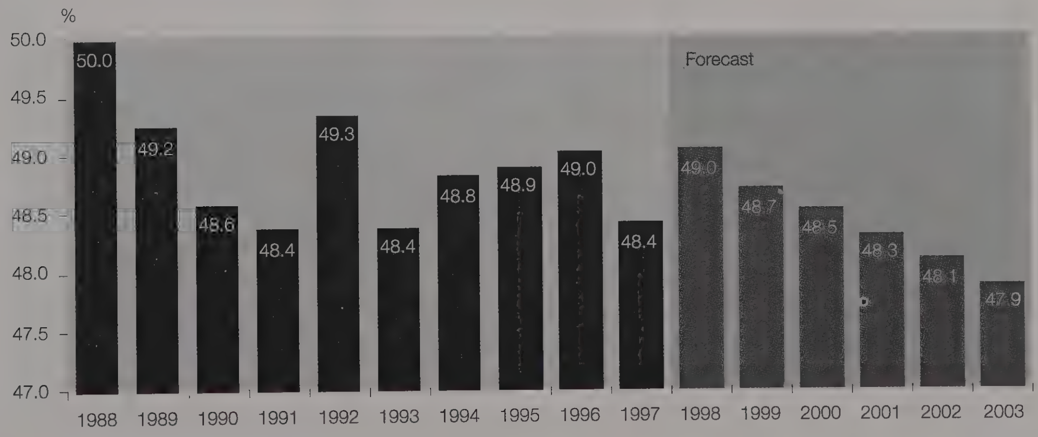
The Henley Centre has developed time and money expenditure models for each individual medium. These models are tailored to reflect the specific dynamics of each market, eg, the impact of price, the economy, increased output, competition and other drivers.

An important input to the forecasts is our prediction of the impact of new technologies, particularly digital television and the Internet. Our forecast assumptions for these new media are outlined below. Further discussion about these two key developments on the media landscape is provided in Parts 3 and 4 of *Media Futures 1999.*

Viewing

Between 1988 and 1998, the total share of media time devoted to viewing (TV, video and cinema) fluctuated between 48.4% and 50%.

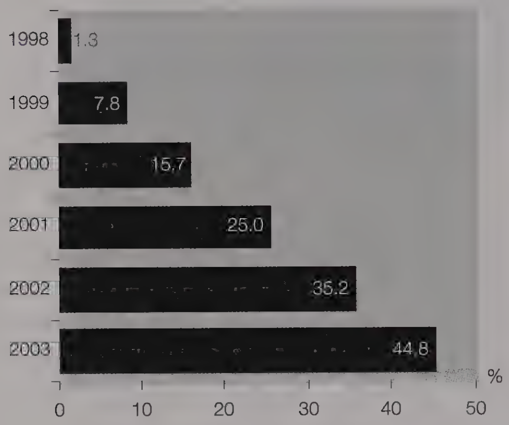
Figure 1.24 Viewing share of total media time



Source: The Henley Centre, COMMET model

	1988	1997	2003	Change 1997-2003
Total viewing time (hours per week)	28.1	27.7	27.4	-20 mins
Cinema share	0.2%	0.4%	0.6%	+3 mins
Video share	8.6%	8.6%	7.3%	-23 mins
TV share	91.2%	91.0%	92.1%	0 mins

Figure 1.25 Take-up of digital TV % of households



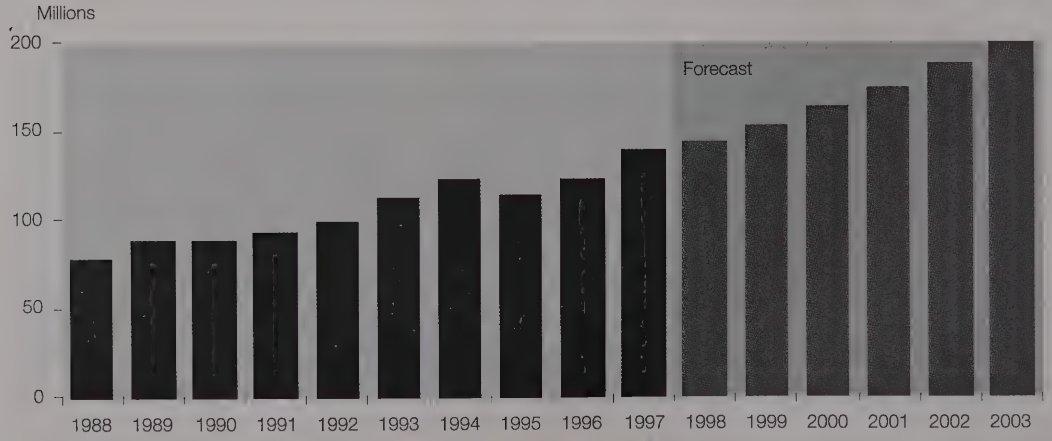
Source: The Henley Centre, COMMET model

Over the next 5 years, we expect the share of media time accounted for by viewing media to decrease slightly to just under 48%. This will be mainly due to consumers shifting more of their media time into interactive media.

The table below shows the total hours spent viewing the media and the shares taken by cinema, video and television. Clearly TV dominates viewing time and will continue to do so in the future. Although total TV viewing will remain flat over the next 5 years, there will be a shift in viewing from traditional channels to digital cable, satellite and digital terrestrial TV. Video viewing will be under pressure from digital TV, which will allow access to PPV and NVOD. Although we expect to see DVD audio-visual units in 12% of households by 2003, this will not reverse the slow trend decline in the time spent watching videos at home.

We are forecasting that digital TV will reach 38% household penetration by 2003. Additionally, 8% of households will access free-to-air digital channels only. The growth of digital TV, the unbundling of channels, and

Figure 1.26 Cinema admissions are growing steadily



Source: The Henley Centre, Media Futures 1999

the marketing push for digital will lead to an increase in overall multi-channel viewing. However, there will not be an explosion in multi-channel viewing. Many digital subscribers will be converted from analogue cable and satellite. These homes already spend more time on non-traditional channels. Thus, by 2003, we expect that the traditional channels will still take the lion's share – almost 80% – of viewing.

Time spent at the cinema is small compared to other viewing time, but it is growing steadily. Cinema will continue to do well over the next five years, driven by the sustained increase in multiplex sites in the UK.

Listening

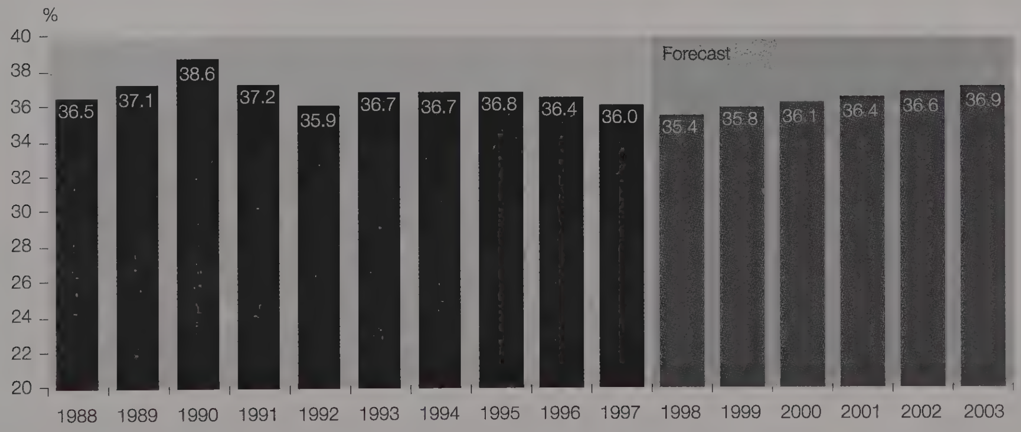
Over the past ten years, the share of media time accounted for by listening media (recorded music and radio), fluctuated between 36% and 39%. The peak of 39% was at the height of the early 1990s recession, when recorded music in particular saw a big increase.

Over the next five years, The Henley Centre forecasts that listening time will increase by just over 80 minutes per week. Radio and recorded music are both in a strong position vis-à-vis other media as they allow the consumer to multi-task. In this respect, listing media can be thought of as 'time-deepening' media. Recorded music in particular will see strong growth. During the 1990s, radio listening declined, due to the decrease in the BBC's listening outweighing the gains made by commercial radio. Over the next five years, we predict that overall radio listening will increase slightly.

We do not predict that the decline in BBC radio's share of listening will continue. Much of the recent share loss has been a result of

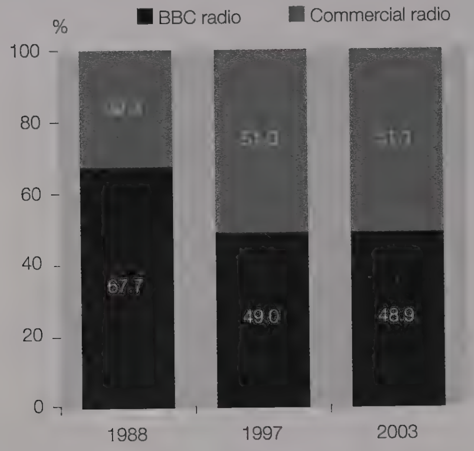
	1988	1997	2003	Change 1997-2003
Total listening time (hours per week)	21.0	22.0	23.4	+83 mins
Recorded music share	1.9%	21.5%	23.5%	+41 mins
Radio share	81.1%	78.5%	76.9%	+42 mins

Figure 1.27 Listening share of total media time



Source: The Henley Centre, COMMET model

Figure 1.28 BBC versus commercial radio Share of listening



Source: The Henley Centre, COMMET model

the rapid increase in the number and coverage of commercial radio stations serving new audiences. Although the number of commercial stations is expected to increase to 300 by early in the next century, these additional stations will not be able to pull as much audience share as in the past. Thus, we predict that the BBC will hold its own over the next five years.

The Henley Centre does not expect digital radio to have a major impact on consumers' radio listening time. Although it offers the benefits of improved reception and access to some visual information for most consumers, the change in the experience will not be that significant. This is unlike the introduction of digital TV.

Currently consumers are not aware of the digital radio offer. In fact, the BBC has been broadcasting its five national stations in digital format since 1995. Consumers will become better informed, as increased marketing activity will accompany the growth in digital radio broadcasting. By the end of 1999, the radio industry expects to have seen the launch of digital broadcasting for all national commercial radio stations, with an expected 60% plus coverage of the population. There will also be six local multiplexes in operation.

The Henley Centre believes that the increase in channels is unlikely to lead to a dramatic increase in listening over the next 5 years. Historically, *total* radio listening has not increased at a time when channel choice has exploded. Even commercial radio listening has been flat over the last few years whilst there has been channel growth. Therefore we do not expect more channels to increase overall radio listening. Rather than new digital channels seeking out new audiences, we expect that they will compete for existing audiences.

Recorded music, like radio, is good for multi-tasking. The time spent listening to music has been increasing significantly in recent years. We expect this to continue, but at a slower rate. The increased time spent listening to recorded music can partly be explained by the shift from singles to longer-playing albums. Additionally, CD players have made it much easier to listen to music for longer. CD albums are generally longer playing than LPs, you don't need to turn the CD over and you can leave it on repeat if required! Furthermore, the choice in

	1988	1997	2003	Change 1997-2003
Total reading time (hours per week)	7.8	9.6	9.6	+4 mins
Newspaper share	45%	35%	29%	-36 mins
Book share	42%	44%	46%	+17 mins
Magazine share	13%	21%	25%	+23 mins

recorded music has increased significantly over the past ten years. Between 1989 and 1997 new album releases increased by 110%, and the choice of music made available through the new megastores opened by Virgin and HMV is wider than ever before. In the future, the introduction of music DVDs will make it even easier to listen for longer periods of time.

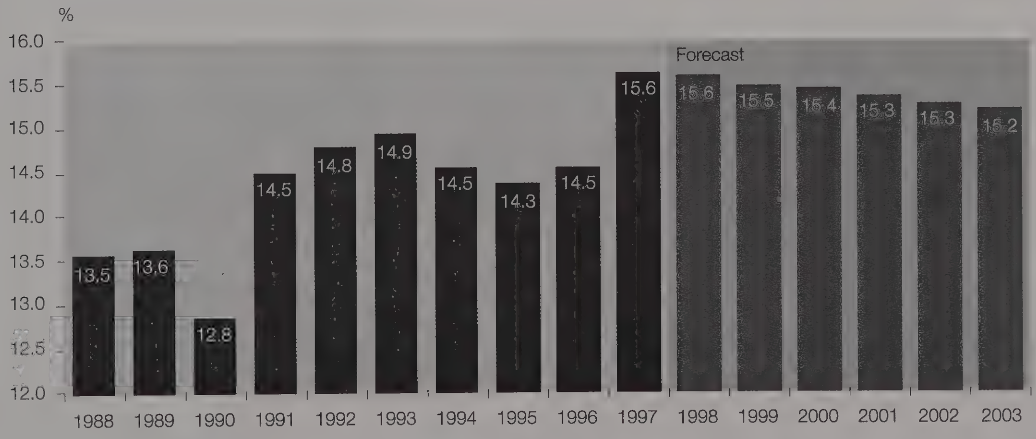
Reading

The share of media time taken by print media has fluctuated between 13% and 16% over the past ten years. In particular, there were significant increases in reading time between 1990 and 1991, and 1996 and 1997. The first increase in reading time can be accounted for by the early 1990s recession. Although it was not a recession year, 1997 was also a good year for print media: the total time spent on newspapers and books increased by almost an hour per week. The increase in newspaper reading is most likely explained by that fact that 1997 was an election year and also the year in which Diana, Princess of Wales died. Both these events generated considerable interest among consumers. The increase in book reading in 1997 is linked to the end of the net book agreement, which opened up new retail outlets such as supermarkets, and the increasing professionalism in marketing successful titles.

Regionals: improving their image

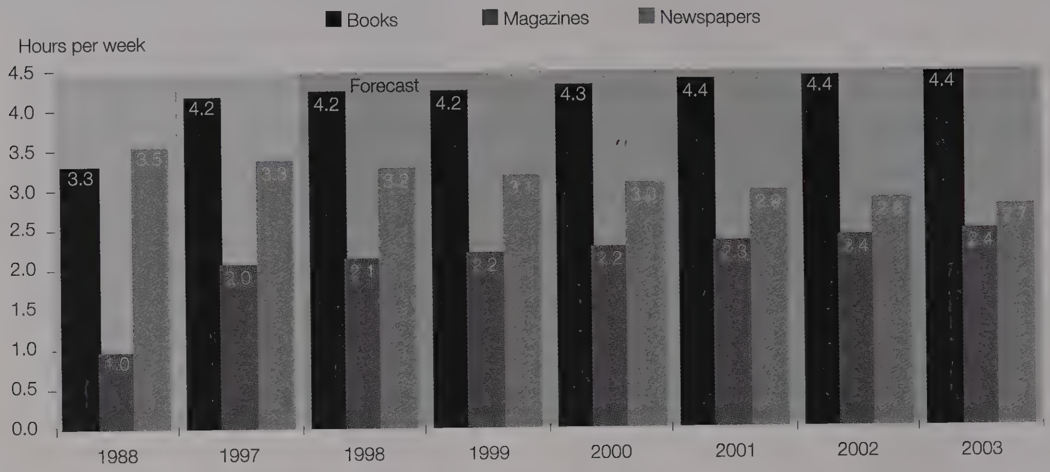
Between 1988 and 1997, the share of reading time taken by magazines almost doubled (rising from 12% to 21%). A significant impetus for this growth was the increase in magazine titles and the success of certain categories, for example, computing, video games and football. Another driver has been the creation of entirely new categories. This has been most notable in the men's magazine market with the launch of highly successful titles such as *Loaded* and *FHM*. The Henley Centre expects magazines to continue to do

Figure 1.29 Reading share of total media time



Source: The Henley Centre, COMMET model

Figure 1.30 Time spent on newspapers, magazines and books



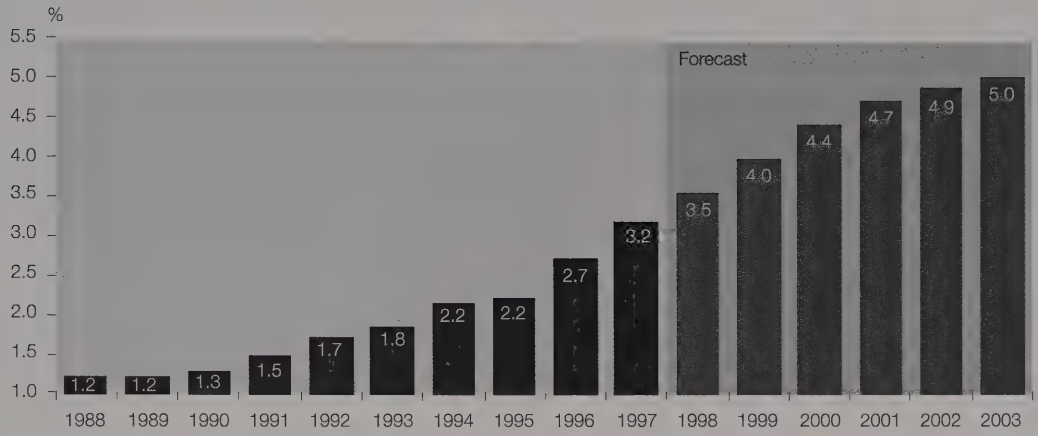
Source: The Henley Centre, COMMET model

well over the next five years, but not at the same level of rapid growth experienced over the past decade.

We forecast that the time spent reading books will continue to increase, stimulated by the continual improvements in the marketing of new titles, building brands around authors, and also through book merchandising for films and TV dramatisations.

In contrast to the positive picture for books and magazines, newspaper reading will continue to decline over the next 5 years. The main driver of this decline is an age-related demographic trend – the traditional audience for newspapers is, literally, dying off. Newspapers are not a fixture in the daily routine of younger consumers to the same extent as they are for older people. As a vehicle for news delivery, newspapers face increasing competition from other, more

Figure 1.31 Interacting share of total media time



Source: The Henley Centre, COMMET model

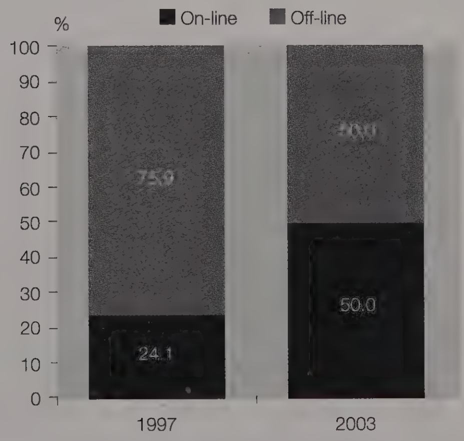
timely media such as Teletext, 24-hour TV news channels and the Internet. Furthermore, in their attempt to become lifestyle media, newspapers face head-to-head competition with magazines and, increasingly, the Internet and niche TV channels.

Interacting

The time spent on interactive media (computers, CD-ROMs, the Internet and video games) saw rapid, sustained growth (admittedly from a low base) between 1998 and 1997. Even in the years when total media consumption decreased, interactive media continued to grow. In 1997 alone, use of video games and home computers increased by more than 20 minutes a week. Over the next 5 years interactive media will continue to increase their share of media time, reaching 5% by 2003.

The Henley Centre is forecasting 40% household penetration of home computers by 2003. This is a 10% increase on 1997 penetration levels. As a result, the time spent using home computers will increase by almost one hour per week by 2003. By 2003, we predict that 32% of households will have access to the Internet. This will mean that the time spent on on-line activities will grow rapidly, reaching 50% of total computer time by 2003. Opportunities to shop, bank and conduct other activities via digital TV will also drive the increase in the time spent on interactive media. We predict that interactive digital TV will reach 6.3% share of total interactive media time by 2003, equating to 12 minutes per person per week.

Figure 1.32 Time spent on-line versus off-line for home computers



Source: The Henley Centre, COMMET model

	1988	1997	2003	Change 1997-2003
Total interacting time (hours per week)	0.7	2.0	3.2	+75 mins
Home computer share	43.4%	63.8%	62.5%	+45 mins
Videogame share	56.6%	36.2%	31.3%	+18 mins
Digital TV interacting share	0%	0%	6.3%	+12 mins

Video games will see intensive platform activity in 1999 and 2000. The total time spent on video games will increase a little, but most of this will come from a core of fanatics rather than more widespread use of video games. Despite the industry's efforts to break out of a young, male-dominated ghetto, new titles such as the Spice Girls and Barbie Girl games are currently the exception rather than the rule.

1.6 The winners and losers for media money

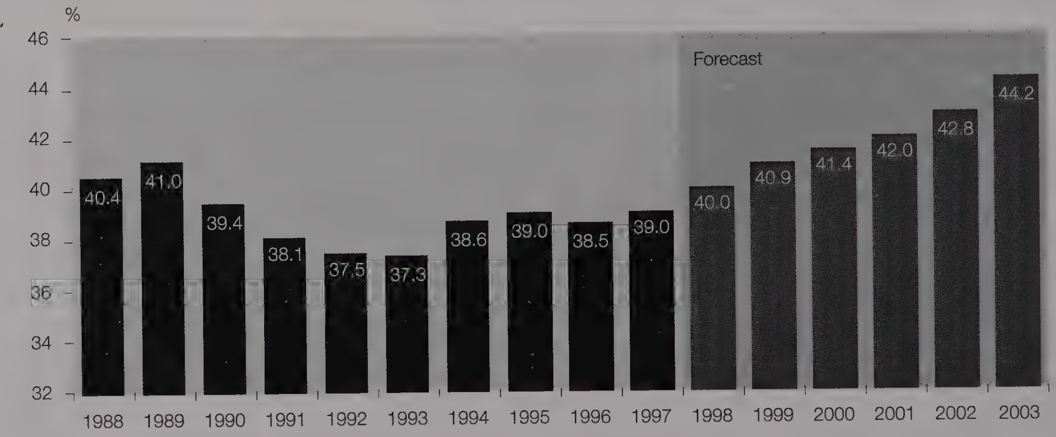
Below we provide our money share forecasts for each medium to 2003. All money forecasts are presented in 1997 prices.

Viewing

Over the next five years, the share of media money taken by viewing media will grow from 40% in 1998 to 44.2% in 2003. Over the same timeframe, the total amount of money spent on viewing media will increase by just under 36% from £8 billion to £11 billion.

Within the viewing category, hardware expenditure will lose share to software expenditure, particularly subscriptions for TV, PPV and NVOD. DVD players are coming onto the market in 1998, and, although take-up will be slow for the first couple of years, we predict 12% household penetration by 2003. However, this will not reverse the decline in video/DVD hardware's share of viewing expenditure. The downward trend in video

Figure 1.33 Viewing share of total media money



Source: The Henley Centre, COMMET model

	1988	1997	2003	Real % change 1997-2003
Total viewing money (1997 prices)	£6.7bn	£8.0bn	£10.9bn	+35.9%
TV hardware & licence fee share	62.7%	50.0%	38.2%	+5.1%
VCR & DVD hardware share	22.4%	15.0%	12.7%	+14.3%
Videotapes & DVD share	11.9%	15.0%	14.5%	+31.0%
Cable, satellite & digital TV subscriptions share	0.0%	13.4%	16.4%	+73.7%
PPV/NVOD share	0.0%	0.4%	10.9%	+3,766%
Cinema share	3.0%	6.3%	7.3%	+43.5%

rental will be offset by an upward trend in sell-through, thus the share of viewing expenditure accounted for by video tapes will decline only slightly. Expenditure on the cinema will continue to grow steadily over the forecast period.

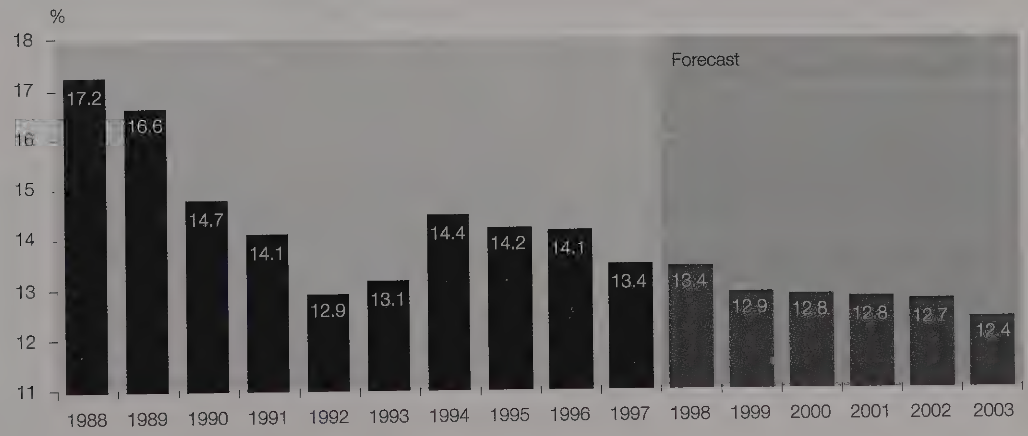
Listening

The Henley Centre forecasts that the share of media expenditure accounted for by listening media will continue to decrease over the next five years. Expenditure on listening software (ie, recorded music) will do well as spending on both singles and albums continues to grow. However, over the same time-period, spending on audio hardware (radios and CD-players) will be almost flat, thus its share of listening expenditure will decrease. (Note: we have included expenditure on DVD under viewing media rather than listening media.)

Reading

The Henley Centre forecasts that the share of media money accounted for by reading media will decline steadily over the next five years, falling from 28.4% in 1998 to 25.6% in 2003.

Figure 1.34 Listening share of total media money



Source: The Henley Centre, COMMET model

	1988	1997	2003	Real % change 1997-2003
Total listening money (1997 prices)	£2.9bn	£2.8bn	£3.1bn	10.3%
Audio hardware share	42.9%	35.7%	32.3%	+3.2%
Audio software share	57.1%	64.3%	67.7%	+14.1%

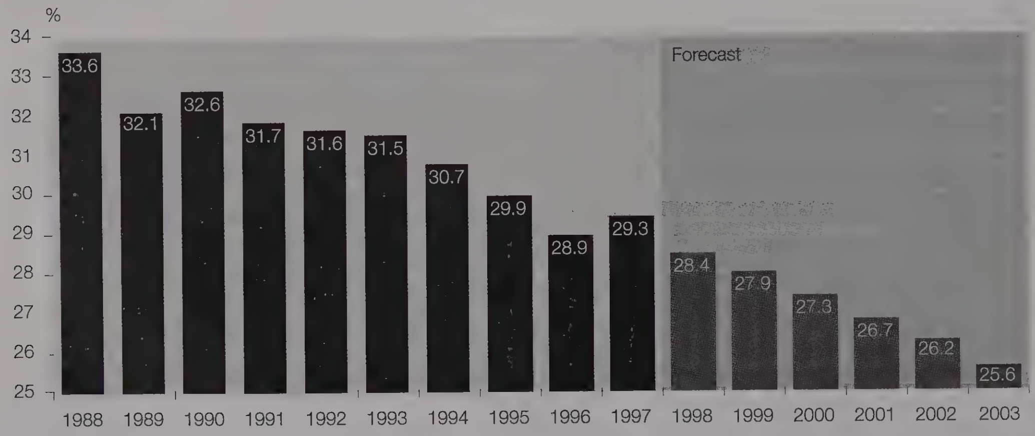
As a result, the total amount of money spent on reading media will increase only modestly from £6 billion in 1997 to £6.3 billion in 2003.

Within the reading category, newspapers and books will be worst hit. Despite their downward trend, newspapers will still account for the largest share of reading expenditure in 2003. In the book market, the fall in spend will be the result of increased competition and lower book prices. In contrast, we predict that spending on magazines will grow healthily over the next five years, albeit at a slower rate then over the previous ten years.

Interacting

The share of media money accounted for by interactive media will continue to grow over the next five years. Spending on home computers will grow steadily over the entire forecast period. This is due to the increasing

Figure 1.35 Reading share of total media money



Source: The Henley Centre, COMMET model

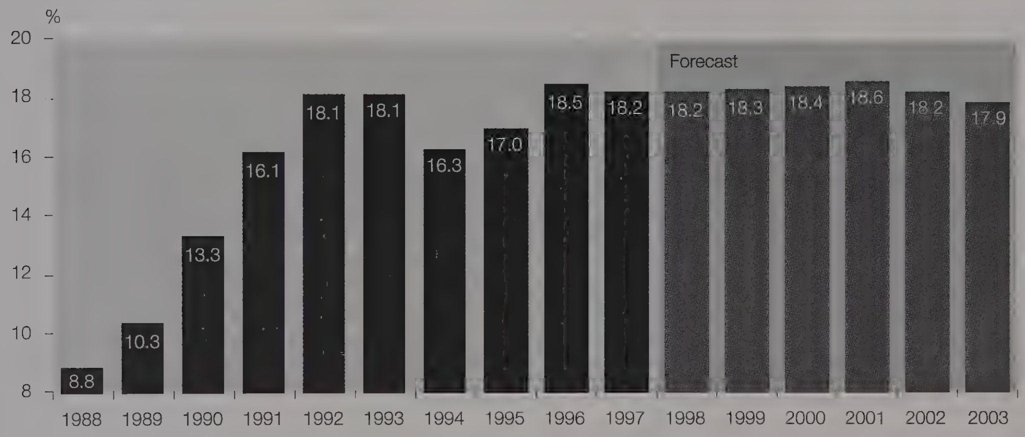
	1988	1997	2003	Real % change 1997-2003
Total reading money (1997 prices)	£5.6bn	£6.0bn	£6.3bn	4.5%
Newspaper share	51.8%	43.0%	38.2%	-7.1%
Magazine share	16.1%	26.3%	36.0%	+43.1%
Book share	32.0%	30.7%	25.8%	-12.1%

	1988	**1997**	**2003**	**Real % change 1997-2003**
Total interacting money (1997 prices)	£1.5bn	£3.8bn	£4.4bn	17.7%
Home computer share	93.3%	91.9%	88.6%	+14.6%
Video games share	6.7%	8.1%	11.4%	+52.6%

domestic penetration of PCs and take-up of the Internet, which we are forecasting will reach 32% household penetration by 2003. Spending on video games will be strongest at the beginning of the forecast period as new platforms are released.

Note: The table above does *not* include spending on products and services bought via digital TV or the Internet. Our forecasts for electronic shopping via both these media are presented in chapter 6 of Media Futures 1999.

Figure 1.36 Interacting share of total media money



Source: The Henley Centre, COMMET model

1.7 Data sources

Radio: RAJAR, JICRAR, The Henley Centre

Television: ONS, Datastream/ICV, TGI, GfK Marketing, Taylor Nelson AGB,: BARB, MediaTel, Bristol licence unit, The Henley Centre

Cable and satellite TV: ITC, MediaTel, Morgan Stanley, BARB, Zenith, Screen Digest,: Sky, The Henley Centre

Video: ONS, Datastream/ICV, British Video Association, GfK:: Marketing, Taylor Nelson AGB, BARB, TGI, The Henley Centre

Cinema: ONS, Datastream/ICV, MediaTel, CAA, Gallup, EDI, The Henley Centre

Newspapers: ONS, Datastream/ICV, Advertising Association, Audit Bureau of Circulation, National Readership Survey, Guy Consterdine Associates, MediaTel, The Henley Centre

Magazines: ONS, Datastream/ICV, Advertising Association, Audit Bureau of Circulation, National Readership Survey, The Henley Centre

Books: ONS, Datastream/ICV, The Bookseller, Cultural Trends, The Henley Centre

Recorded Music: ONS, Datastream/ICV, BPI, GfK Marketing, MediaTel, The Henley Centre

Video Games: ONS, Datastream/ICV, Mintel, ELSPA, Screen Digest, The Henley Centre

PC: Mintel, TGI, Screen Digest, Euromonitor, European Audiovisual Observatory, RIPE, The Henley Centre

MEDIA FUTURES 1999

marketing and communities

2 Marketing and communities

2.1 Introduction

The analysis of 'The Attention Economy' shows how growth in the media over the past 10 years has put pressure on consumers' time and money budgets. Demand for media has not kept pace with the increase in the choices available. This trend will continue as new media such as the Internet and digital television compete for their share of consumers' time and money spend. The fact that the supply of media is expanding faster than demand creates challenges for media owners seeking to maximise returns on investment in content, production and distribution. It also raises issues for advertisers seeking to get the best use from their marketing budgets – questions of effectiveness and optimisation of the marketing mix come to the fore.

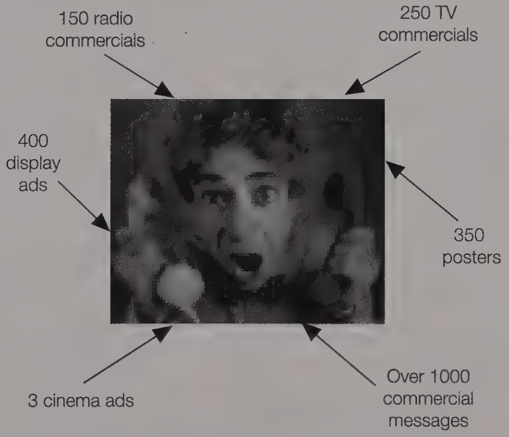
Although the total time and money spent on the media is relatively static, there are definite trends in the consumption of individual media. Of particular interest from a marketing perspective are the trends towards what we have labelled 'choice media' and media that score well in terms of value for time. The fact that media falling into these two categories are increasing their share of the cake is significant. It suggests there are underlying changes in consumer behaviour, changes which need to be understood.

In this chapter we examine the implications for marketing of the changes in the broader consumer context. What emerges is a picture of the 'come-of-age' consumer – sophisticated and confident, with demands that are difficult, even impossible to meet. Furthermore, combine the 'come-of-age consumer' with the technological capabilities of the Internet, and we have the ingredients for an unprecedented shift of power from the producers of good and services to the customers who buy them. This shift in the power balance requires a radically different approach to marketing: an approach that starts with the *consumer* rather than the provider or brand. This entails turning most marketing activity on its head. In embryonic form, the new approach to marketing is emerging on the Internet. The longer-term impact could be huge, and the payback to those who grasp the opportunity enormous.

2.2 Can you hear me?

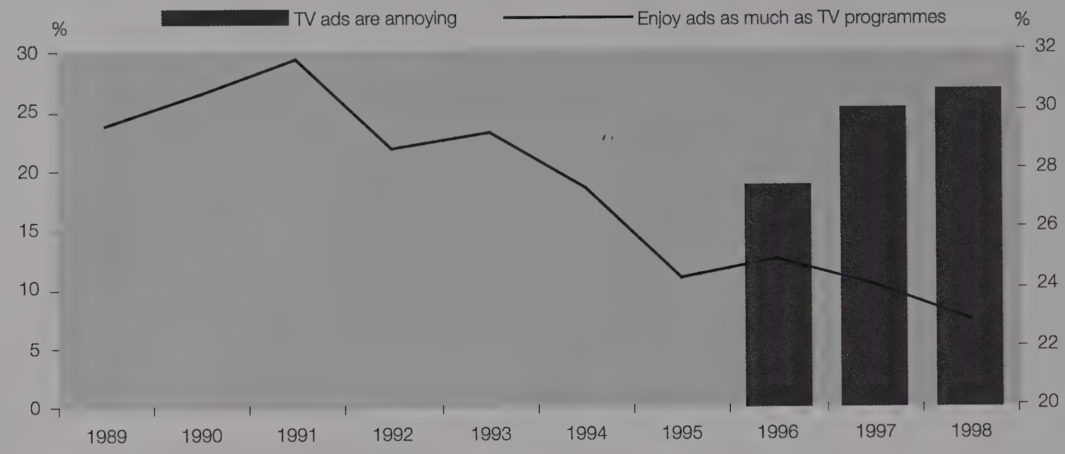
Having a dialogue with a customer in today's marketing environment is a bit like trying to have a private conversation with someone on the main runway in Heathrow – how do you make yourself heard? In our media-drenched society, it is getting increasingly difficult to communicate with the consumer using above

Figure 2.1 Media overload The average consumer each week...



Source: Western International Media

Figure 2.2 Turned off by the ads



Source: BMRB, Target Group Index (TGI)

the line advertising. According to *Western International Media,* each week the average UK adult is exposed to 250 television commercials, 350 poster sites, 150 radio ads, 400 press ads and three cinema ads – over 1,000 commercial messages.

Worse than media clutter is the problem of advertising avoidance. In 1996, The Henley Centre found that 39% of adults agreed with the statement "*I usually switch channels or leave the room when ads come on*". Research commissioned by *Campaign* to mark its 30th anniversary in 1998 suggests that this situation has worsened – half of all television viewers now switches channels when the commercial break starts. In 1997, research from Lowe Howard Spink on ad avoidance suggested that up to 13% of all TVRs, worth nearly £500 million, are lost due to channel surfing. Almost 70% of the respondents to BMRB's Target Group Index (TGI) claim to fast-forward through the ads when watching a TV programme they have recorded on video.

Why are people avoiding ads? A major factor is time squeeze – watching ads just does not seem like an effective use of time any more. More worrying, however, is the evidence that people are bored or annoyed by advertising. According to TGI again, consumer dissatisfaction with advertising is on the increase. In 1991, almost a third of the adult population agreed with the statement "*I enjoy the television ads as much as the programmes*". Last year that percentage was down to 23%. More people now say they find TV ads annoying than say they enjoy them, and the proportion of people who expect advertising to be entertaining has dropped from 52% in 1989 to 45% today.

2.3 Who are you anyway?

Direct marketing offers the potential to target individual consumers with tailored messages. The advantages to advertisers are reduced waste and the ability to more accurately measure the effectiveness of the spend. Demographic and social changes, however, mean that the tools of direct marketers are becoming less effective. In particular, traditional indicators such as age, sex and class are becoming less meaningful as predictors of consumer attitudes and behaviours.

The underlying changes in consumer behaviour that are driving this trend are examined in The Henley Centre's *Planning For Consumer Change* programme. One such development is that age is a flexible idea in today's society. For example, old age is no longer a period characterised by sedate conformity. Many third agers (the over 55s) are enjoying a more active lifestyle than ever before. This is the consumer segment that is most rapidly increasing its expenditure on eating out and holidays. Similarly, the age at which people choose to settle down and have a family is less predictable than it used to be. The entry of women into the workforce and the increase in divorce and second marriages have resulted in 'family time' becoming more diverse.

Another example of how social change is making the job of direct marketers more difficult is the changing nature of employment. The traditional job classifications that underlie the A, B, C1, C2, D, E social grade classification seem hopelessly outdated in a world of growing self-employment, service occupations and knowledge industries. Such developments make the modern consumer more difficult to 'pin-down' through traditional segmentation and database marketing techniques. Even with sophisticated datamining software, our ability to predict consumer attitudes and behaviours is limited.

2.4 How about a one-2-one?

"Products will increasingly be tailored to individual tastes… the most indispensable elements of your relationship with your customers in the future will be dialogue and feedback".
Peppers and Rogers – The one-2-one Future

In 1993 Peppers and Rogers published their bestselling book *The one-2-one Future.* Their thinking represented a significant breakthrough in marketing. The key advances were:

1. *Personalisation:* products and services should be tailored to meet *individual* consumer needs rather than the aggregated needs of consumer segments.

2. *Dialogue:* marketers should establish a mechanism to *gather feedback* from customers enabling them to not only personalise their

DOGBERT, LOOK, I GOT THE FIRST VIDEO PHONE IN THE CITY!
NOW WE WAIT FOR SOMEBODY ELSE TO BUY A COMPATIBLE VIDEO PHONE AND CALL US.
THE AMAZING THING IS THAT SOCIETY COULDN'T ADVANCE WITHOUT PEOPLE LIKE YOU.
I THINK I SAW SOMETHING.
S. Adams
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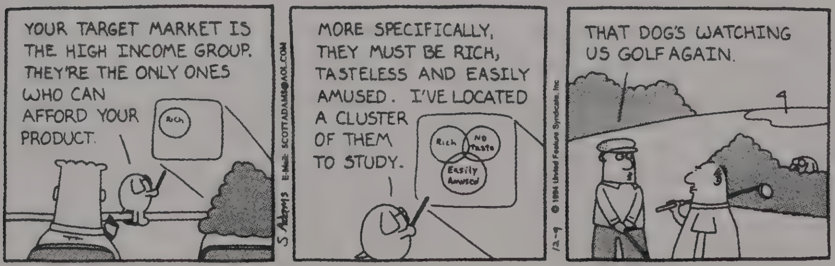
YOUR TARGET MARKET IS THE HIGH INCOME GROUP. THEY'RE THE ONLY ONES WHO CAN AFFORD YOUR PRODUCT.
Rich
MORE SPECIFICALLY, THEY MUST BE RICH, TASTELESS AND EASILY AMUSED. I'VE LOCATED A CLUSTER OF THEM TO STUDY.
Rich
No Taste
Easily Amused
THAT DOG'S WATCHING US GOLF AGAIN.
S. Adams E-Mail: SCOTTADAMS@AOL.COM
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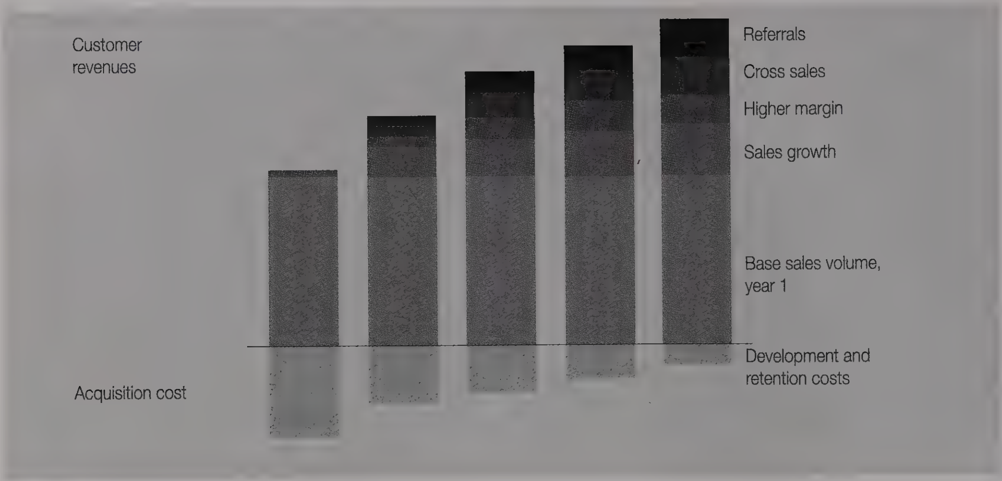
Figure 2.3 Lifetime value of the customer



Source: The Henley Centre, Media Futures 1999

offer but also to develop on-going customer *relationships*.

3. Lifetime value: the value of a customer should be measured over his or her *entire lifetime* rather than on a one-off basis; thus marketing should be managed as a *dynamic* not static process.

The focus of *The one-2-one Future* is on customer *retention* rather than acquisition. This represents a shift in marketing strategy. Rather than trying to find *new* customers, the goal should be to develop longer relationships with *existing* customers. The aim should be to sell more products/services to them and thus maximise the return on the initial investment in acquisition and the ongoing costs of maintaining the relationship.

In practice, few companies have achieved the one-2-one marketing nirvana. Cross-selling has proved very difficult to implement. Even in sectors such as financial services, where the opportunity is apparently considerable, the extent of cross-ownership is very low. Most of the efforts of banks and building societies to encourage their current account holders to buy their mortgage and insurance products have not been successful. In 1996, The Henley Centre's Financial Relationship Consortium found that only one in four respondents from a sample of 1,799 adults with three or more financial services products held 50% or more of their products with a single financial services provider. More recently, the CEO of Lloyds TSB, has stated that whereas the bank's average customer holds seven financial services products, only two of these are Lloyds TSB products.

The problem of data management has been a major impediment to cross-selling. In the first instance, banks have had to invest millions in IT to consolidate several individual product databases into a single customer-centred data warehouse. This is required just to obtain an accurate picture of the current extent of cross-ownership. Once database consolidation is achieved, the next challenge is to develop successful marketing campaigns that target individual consumers with appropriate offers. Most attempts have been woefully unsophisticated. Consumers have suffered from an avalanche of ill-targeted bill-stuffers describing insurance products or credit card offers.

The experience of the banking sector is not untypical. Despite the hype and high hopes, one-2-one marketing has proved difficult to implement. Companies have found it technically too difficult and/or prohibitively expensive to collect, analyse and use customer data in an effective way. For example, why doesn't my credit card company make better use of the insight they have into my buying habits, tastes and lifestyle? Why can't my airline recognise me as an individual passenger so that when I go economy class on holiday I'm treated just as well as when I travel business class for work? Finally, why doesn't my supermarket send me offers that reflect the insight they gain from my using their loyalty card every time I purchase groceries?

2.5 The Internet and one-2-one – a love story

"'The one-2-one Future' was the title under the arm of nearly every publisher and marketer I ran into at web conferences or read about in the trade press during the medium's earliest days".
Chip Bayers, 'Wired' magazine

Nowhere are the difficulties of one-2-one marketing more evident than on the Internet. The Net was heralded as the medium that would enable the dream of one-2-one marketing to become reality. As Chip Bayers wrote in *Wired* magazine in May 1998, *"Let us love you, web sites first said to consumers in the fall of 1994… start by telling us your secrets. If you do, they promised, we will deliver everything you ever wanted – not just pizza, but every other consumer product and service you covet now, and others you can only dream of. Imagine it, if you can: the Ultimate Takeout Menu."*

Four years on, the picture is rather different from this early vision. Most web sites are collecting basic data about their users: how many times a page has been viewed, which domains visitors come from, the types of browsers they use, which domains have linked to the site and driven traffic in its direction, and so on. However, few commercial sites collect much beyond the very basic information. Postcode (or zipcode) is probably the most prevalent request, but this hardly represents a marketing revolution.

Ironically, there is currently *less* information available to marketers about consumer activity on the Web than they are able to gather elsewhere. Rex Briggs, who tracks and measures web consumer patterns as a vice president at Millward Brown Interactive in San Francisco, argues that the information that marketers are gathering about consumers on the Web *"pales by comparison with what marketers already have in their databases about purchase history"*. The problem is that much of the data is simply dumped into the black hole of a hard disk where it lies untouched and untapped. The Internet search engine Excite collects 40 gigabytes of data in its log files every day.

"If we tried to look at things at that level, we'd go insane – we'd drown in the information."
Craig Donato, VP of marketing at Excite

"In theory, any site can know a great deal about what its users are doing. But in practice, very few sites have the technical expertise or the marketing expertise to know what to do with the data. They have not begun to mine the gold that's there."
Donna Hoffman, professor of marketing at Vanderbilt University

2.6 The times they are a changin'

"Oh you better start swimmin' or you'll sink like a stone, for the times they are a-changin'."
Bob Dylan

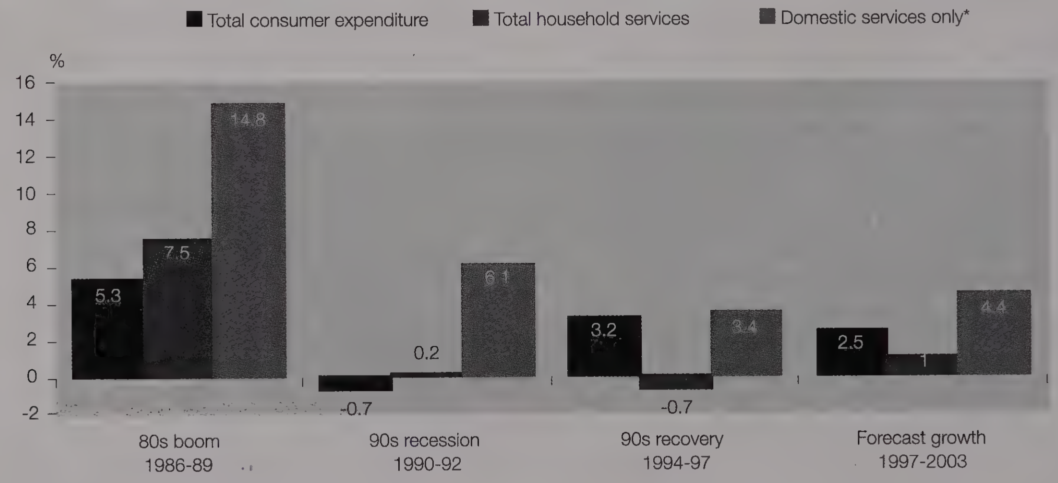
If consumers went on thinking and behaving in the same way, companies could use technology and information to improve the same old ways of doing business. This is not the case, however. In subtle but important ways, the consumer is changing.

The first observation is that today's consumers are marketing literate. Given that marketing has been around for most of the century, it is not surprising that consumers are catching on. ITV is 40 years old. This means that anyone under the age of 40 has grown up with commercial television. Whereas in the past people thought adverts were to inform them, now they know they are trying to sell them things. The notion that the consumer is waiting to be told what to think and what to buy is hopelessly outdated. Today's consumer understands how marketing works. It is not simply that they are cynical, they are savvy.

The media have been instrumental in revealing the truth about marketing. Consumer affairs programmes and 'real-life' documentaries such as The Adelfi and Health Farm have taught consumers how marketing works. Few people could have missed last year's furore over Labour's spin doctors operating behind the scene in politics and the subsequent coverage of Alistair Campbell's alleged manipulation of Labour's image. 'Hype', 'spin' and 'being on message' are phrases that have entered the language, illustrating just how far the curtain has been pulled back on marketing.

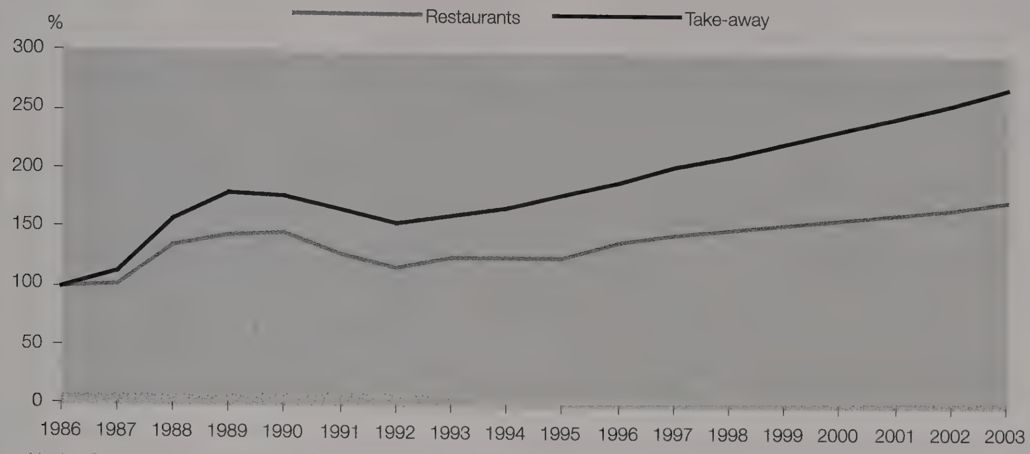
Today's consumers are confident, demanding and want to be in control. Data from The Henley Centre's *Planning For Consumer Change* programme indicates the extent to which the consumers are prepared to assert themselves. For example, we're likely to complain or take our custom elsewhere if our expectations are not met. 65% of consumers say they will complain in person about poor service or faulty goods; 50% say they'd tell friends and family to stop buying from this particular company; and an incredible 60% support breaking the law as an acceptable form of

Figure 2.4 Spending on domestic help outperforms Real annual change in consumer expenditure



* childcare, nursery care and other domestic services
Source: Henley Centre analysis of ONS data

Figure 2.5 Take-aways growing faster than restaurant meals Consumer expenditure on catering, indexed 1986=100



Source: Henley Centre analysis of ONS data

protest against corporate actions they find unjust or wrong.

2.7 Impossible demands?

At times, it seems that consumers have unreasonably high expectations, or, worse, that they have contradictory demands. For example, consumers…

- … want value for money *and* value for time;

- … expect to be treated as an individual, but want to protect their privacy.

The value-conscious consumer

Heightened competition between providers encourages price-led marketing and increases consumers' sensitivity to value for money. Price-led marketing is a feature of most sectors. Gone are the price-fixing cartels in books, newspapers and over-the-counter drugs. Discounts and offers have dominated other sectors such as mobile telephones, fixed-line telephone services and satellite television. Several years of low inflation have exacerbated the situation. In a low inflation environment, underlying price increases are more visible to the consumer. The introduction of the Euro will only serve to make cross-border price comparison even easier. The result is that today's consumers are less willing to trade quality for price, knowing that if they shop around they will find a better deal.

A heightened sense of value for money is not the whole story, however. Consumers are increasingly concerned about *value for time* in addition to value for money. In fact, for cash-rich, time-poor consumers, time is frequently a more important currency than money. Thus, a significant minority (42%) of consumers are willing to spend money to save time. This figure rises to 54% among AB consumers. An illustration of this is shown by The Henley Centre's analysis of ONS consumer expenditure data. Some of the fastest growing categories are products or services that save the consumer time, such as take away and snack food, domestic help and childcare.

Although a minority of consumers are willing to trade money for time, most are either not prepared to or cannot afford this luxury. This poses difficulties for companies aiming to provide services to the mass market. For example, Tesco Direct is trialing a home shopping service in west London. The service is fully subscribed and Tesco receives frequent calls from consumers outside the test area asking when the facility will be available to them. Unfortunately for Tesco, the cost of extending the trial is currently prohibitive because of the high costs of running the home delivery service. To launch nationally, Tesco would have to charge the consumer for delivery. This would be unacceptable to the majority of consumers. Tesco will have to find a way to run the service more efficiently, most likely by outsourcing to or collaborating with a company with expertise in home delivery.

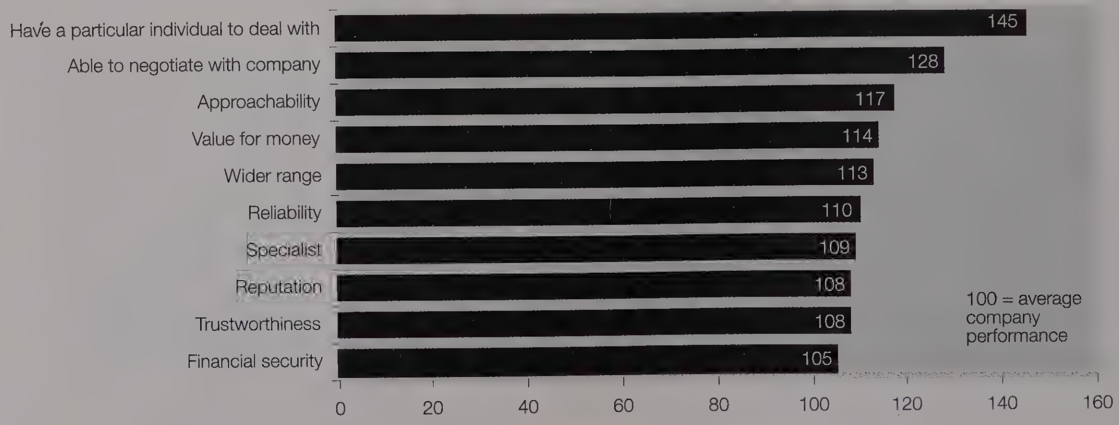
The successful combination of value for money with value for time has already shaken up other industry sectors. For example, Direct Line redefined the general insurance market with its low-price, time-efficient telephone-based distribution channel. Almost all the other general insurers have now followed their lead. In 1997, 52% of personal motor insurance and 23% of household contents insurance was purchased direct over the telephone. The market has changed forever.

The personalisation versus privacy conundrum

Individualism has been a dominant theme in Britain ever since Mrs Thatcher announced *"There is no such thing as society, only individuals and families"*. Liberalisation, deregulation and the rolling back of the welfare state have brought the ideology of individualism into the lives of ordinary consumers. Individualism has meant greater freedom and choice – the right to buy your council house, parent power in education, the right to chose when and which NHS doctor you see.

The spirit of individualism has spilled over into marketing. Ask consumers what defines quality in services, and you're likely to hear a predictable answer. They invariably celebrate services that are personalised and customised to the individual. For example, in The Henley Centre's 1996 *Loyalty Spectrum* report, the two factors that distinguished the financial services providers that consumers rated most highly were "*having a particular individual to*

Figure 2.6 Personalised relationships top of the list Index of those scoring their provider 9 or 10 (excellent)

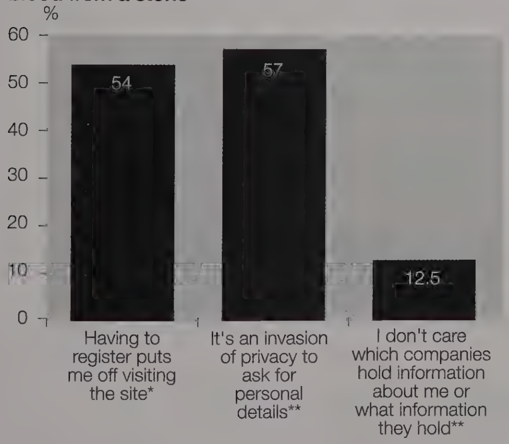


Source: The Henley Centre, Loyalty Spectrum in Financial Services 1996 *deal with*" and "*being able to negotiate with the company*". Both these attributes describe a level of personalised service, which not all the providers offered.

There are many examples of companies using product choice and service delivery to satisfy consumer needs at a more individual level. The mobile phone company Orange was the first to introduce new flexible tariffs to meet the needs of different customer groups. The car manufacturer Daewoo allows the consumer to personally customise their car. Levi will tailor its jeans to the exact measurements of the customer, and Egg will personalise your bank account.

On the Internet, companies such as Amazon.com and Firefly.com are using collaborative filtering software to make personalised book and music recommendations. By pooling consumers' purchase profiles and preferences across a large database of observations, these companies are able to send individually tailored messages to their users – along the lines of *"If you liked that album, you may like to try this one"*.

Figure 2.7 Requesting personal information – getting blood from a stone



Source: * BMRB, Internet Monitor; ** The Henley Centre, Media Futures 1999

Not all consumers are happy for companies to know about their personal tastes and preferences, however. This poses problems for companies trying to deliver personalised services. According to Chip Bayers, writing in *Wired* magazine: *"Consumers seem to be willing to upset the marketing applecart. They refuse to co-operate: some 94% of them have declined to provide personal information at one time or another when asked for it. And they lie. Through their teeth! 40% have taken the time to make shit up when they actually do provide data on a web form."*

Data from BMRB's Internet Monitor survey points to a similar, if less extreme, conclusion. Over half of the UK Internet users who responded to BMRB's survey said that having to fill in a registration form to access a web site has "*put them off visiting the site*". Of the respondents to The Henley Centre's Media Futures 1999 survey, 57% agreed that companies' requests for personal details are an "*invasion of privacy*" and only 12.5 % said they "*don't care which companies hold information on me or what information they hold*" (based on a nationally representative sample of adults).

Some companies have learnt the hard way. Until recently, customers who visited US electronics retailer Radio Shack found that its check-out clerks required them to give their name, address and telephone number every time they made a purchase. In today's environment, Radio Shack can no longer get away with this practice and consumer backlash forced the retailer to abandon it. Similarly, last summer, America On-line announced that it would sell the names and phone numbers of its 10 million members to a direct marketing firm. The resultant outcry from consumers forced it to drop the planned sale.

On a more positive note, 53% of the respondents to The Henley Centre's Media Futures 1999 survey said they are "*happy to provide personal information in order to improve the service they receive*". This finding echoes The Henley Centre's earlier research for our 1996 *Dataculture* report. In other words, if you make it worth the consumers' while, they are more likely to co-operate. The problem is that consumers will feel let down if they do not receive sufficient payback, either through discounts or service improvements. Furthermore, once consumers realise the true value of their information, they will start to expect something substantial in return. Failing to meet their expectations will make them less willing to provide information in the future.

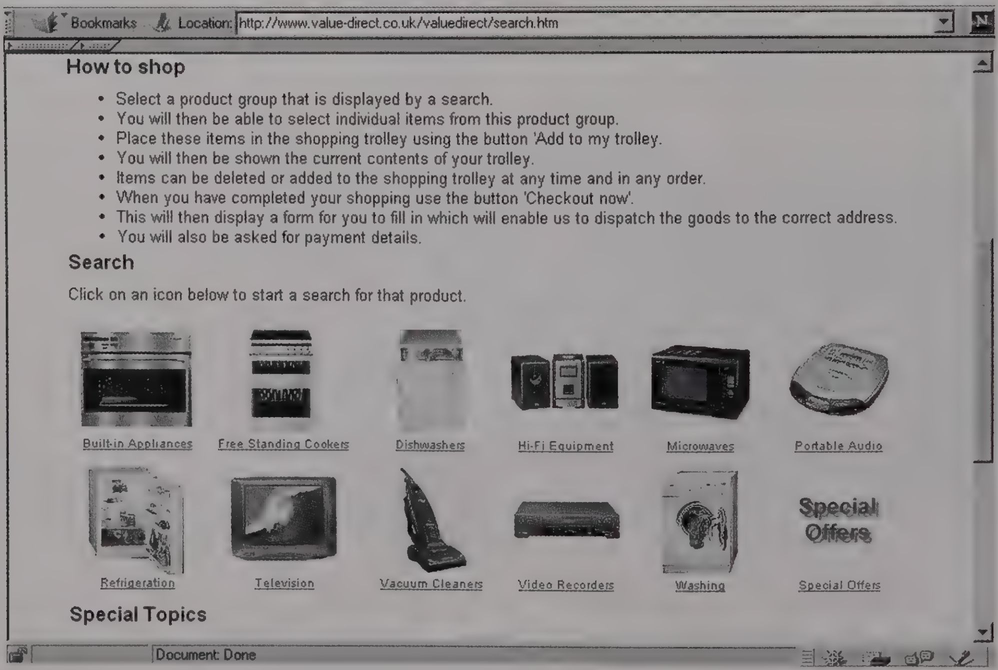
2.8 Re-writing the rules

Two companies that are seemingly 'in tune' with the modern consumer are Value-Direct and Request. Both are using the technology of the Internet to experiment with new ways of doing business.

www.value-direct.co.uk

Banbury-based Value-Direct sells white and brown goods via corporate Intranets and its web site. It undercuts traditional retailers by passing on savings it makes from reduced overheads. It has no showroom or stores, uses third-party couriers for delivery, and does not produce a printed catalogue. Its sole presence is on the Web, where it exhibits its 4,500 product lines.

Value-Direct should make sales of £5m this year to affinity groups, such as office and sports clubs. Unlike US retail clubs, which charge a subscription fee for access to a range of products at wholesale prices, Value-Direct makes all its money from sales. For the corporate Intranet service, Value-Direct tailors the catalogue to the perceived needs of the audience. It adjusts the range according to what it believes people can pay.



Location: http://www.value-direct.co.uk/valuedirect/search.htm

How to shop

- Select a product group that is displayed by a search.
- You will then be able to select individual items from this product group.
- Place these items in the shopping trolley using the button 'Add to my trolley.
- You will then be shown the current contents of your trolley.
- Items can be deleted or added to the shopping trolley at any time and in any order.
- When you have completed your shopping use the button 'Checkout now'.
- This will then display a form for you to fill in which will enable us to dispatch the goods to the correct address.
- You will also be asked for payment details.

Search

Click on an icon below to start a search for that product.

"We offer different goods to different people," says Ian Bland, managing director. *"Members of the health service tend not to be particularly rich and therefore they tend to want value for money. Employees at blue chip companies tend to be richer so we tailor the products accordingly."*

The web site is particularly appealing to people who do not have time to buy goods such as washing machines and televisions – purchases that tend to need more buyer consideration – during shopping hours. Most orders are placed on weekdays at lunchtime and during the evenings. There is also a high level of sales at the weekend. The evidence suggests that consumers do not worry about buying the relatively expensive products on-line because items such as washing machines always tend to be the same size and shape. If they need assurance, then they can get recommendations on-line from consumer sites such as Which On-line, which has a direct link on the Value-Direct web site.

Value-Direct was launched in early 1995 as a telesales operation, but by September the following year had established a web site. Initially, it carried a small range, but customer-led demand persuaded it to load the full-range in mid-1997. Although some suppliers were initially worried that selling via Value-Direct would irritate existing retailers, all but "*a couple*" now supply and "*actively support the business*".

Request

Request is, in effect, a mass-market broker, seeking to meet consumer demand with better, quicker and more efficient deals across a range of high-ticket items, from financial services to gas supply, mobile phones and holidays. Backed by minority shareholders Scoot and software company Diva Solutions, Request's primary source of revenue derives from capturing customer information and developing detailed profiles of individual consumers for use by selected third-party vendors. Putting it simply, Request acts as a matching agency for companies and consumers.

Request is forming relationships with three different types of partners: 'attention providers' or media owners who can reach mass audiences; 'service providers' who can help to carry out transactions; and 'content providers' who provide the product or service. The role of the media owner is crucial in extracting detailed information from audiences about their purchasing needs. This is achieved through competitions, editorial and loyalty schemes. Request then uses this information to match the buyer with the seller. This is done via the Internet and a software program that enables the call centre operator to work in 'real time' and select the best deal from one of the participating providers.

For example, the consumer surveys the available financial services deals and identifies those that fit his or her personal circumstances. This all occurs *before* he or she goes through the process of completing any complicated forms, thus avoiding making unnecessary or unsuccessful applications. The consumer is happy because he or she has a product which fits his or her needs with minimum hassle.

From the provider's point of view, Request serves up a buyer without them having to incur the usual marketing and distribution costs. This means that the provider can offer the consumer a better deal. The consumer is happy and Request is also happy, because it gets a fee from the provider. The media owner is also satisfied because it gets a commission on every successful transaction.

Barry Hill, a former general manager for American Express's UK card business, is behind the setting up of Request. He says the best analogy for the idea is a supermarket offering a range of products and services electronically at great prices. *"We can offer cheaper, faster and better deals by essentially gathering customers together and selling their needs to product providers,"* he says. *"The approach is more efficient for the product provider, who usually spends a small fortune on market research, marketing and distribution to search out customers."*

Services such as Value-Direct and Request are likely to be more than just passing fads as they are supported by strong supply-side and demand-side trends. The supply-side trend is the attractive economics of doing business on the Internet – the ability to bypass traditional distribution channels and strip out cost from the marketing and selling process. The demand-side trends are worth exploring in some detail.

Value-Direct is the most simple to understand. To consumers, the proposition is clear – Value-Direct saves them money *and* it saves them time. Rather than having to traipse around several shops comparing the features and prices of brown and white goods, consumers can go on-line and survey the options in one simple step. Furthermore, Value-Direct is able to undercut traditional retailers, ensuring that whichever product consumers choose, they get a bargain. The fact that Value-Direct tailors the product offer to reflect consumers' circumstances also goes some way to delivering a more personalised service. Finally, by allowing the consumer access to the Which On-line descriptions of the brown and white goods in their electronic catalogue, Value-Direct is responding to consumers' desire for accountability.

Request's business model is more complicated. It is exploiting the collision between the twin consumer desires for personalisation and accountability, and making a business out of being an 'infomediary'. In other words, Request makes money out of bridging the gap that exists between companies' need for capture of detailed customer information and customers' desire for protection of such information from exploitation by companies. The key to Request lies in the fact that, rather than the consumer's personal data being on the provider's database, the provider is on the consumer's database. This puts the consumer in control of the marketing process.

2.9 Turning marketing on its head

Request and Value-Direct are examples of the new business models emerging on the Internet. Both are using technology to *empower the consumer.* In the process, they generate savings in marketing and distribution costs that are shared between provider and customer. The result is a win-win situation that challenges traditional marketing and distribution models.

Like so many other web sites, however, Value-Direct and Request still have to attract customers to their site. Without sufficient traffic, neither venture will be successful in building a sustainable business. On the Internet, the mechanism for signposting consumers to your site is banner advertisements. The banner ad is designed to attract consumers' attention, encourage them to click on the banner and go through to the site being advertised. The creative (the design of the ad) is important, but its placement is equally critical. Ideally, you want to locate your banner on sites that have a high chance of attracting consumers who are already predisposed to your offer.

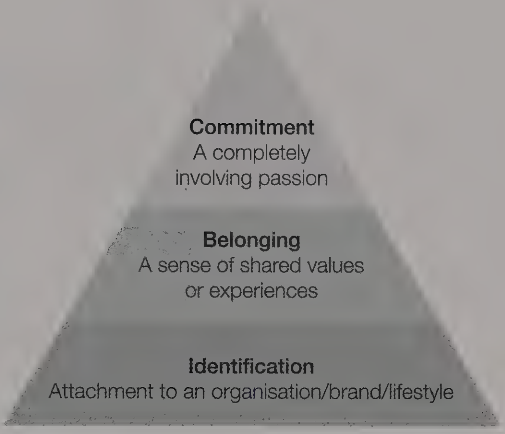
Thinking about the placement of banner ads raises some very important questions:

Who is on the Internet? Why are they there? What are they doing on-line?

Answering these questions can lead to a new way of thinking about the Internet as a forum for marketing. In fact, it can lead to a new way of thinking about marketing in general. The typical marketing plan starts with a product or product idea and describes tactics for identifying and tracking down the target customer base. As we have already discussed, this approach is increasingly difficult and costly to get right. An alternative is to exactly reverse the process. In other words, turn traditional marketing on its head. Start by really understanding the consumer and then look for things to sell them. Many companies pay lip-service to this idea – "*we're adopting a customer-driven strategy*", "*we're trying to get closer to our customers*", and so on. In reality, however, most marketing plans are still brand- or product-led; they are *internally* rather than externally driven.

There are examples of companies that have turned traditional marketing on its head – Disney, Harley-Davidson and Virgin come to mind. Each of these companies is in the enviable position of owning brands with a very strong customer franchise. Their brands have audiences. The word 'audience' is important. An audience is a group of people who are listening to you and/or watching you. Once you have their attention they may be interested in having a conversation with you about many things. Disney, Harley-Davidson and Virgin have expanded their business by finding new products and services to sell to their audiences.

Figure 2.8 The participation pyramid


Commitment
A completely involving passion
Belonging
A sense of shared values or experiences
Identification
Attachment to an organisation/brand/lifestyle

Source: The Henley Centre, Media Futures 1999

2.10 The power of participation

The strength of brands such as Disney, Virgin and Harley lies in the degree of attachment that they generate among their customers. In the case of Harley-Davidson, customer loyalty is raised to a higher level by expanding the bond between the seller and the buyer to include a bond between the *buyers* themselves in a community of like-minded individuals. The Harley-Davidson customer base is a genuine community with a sense of identity and belonging. For example, 60,000 people turned up at the Harley Owner's Group 10th anniversary reunion. At the event, the managers of the company participated as members of the community – they met with, talked with and rode with their customers.

Not all brands can boast this level of participation. Figure 2.8 illustrates three levels at which the consumer can participate with a brand or organisation. As we move from the lowest level of the pyramid to the top, the level of participation increases as does the reciprocal payback to the consumer.

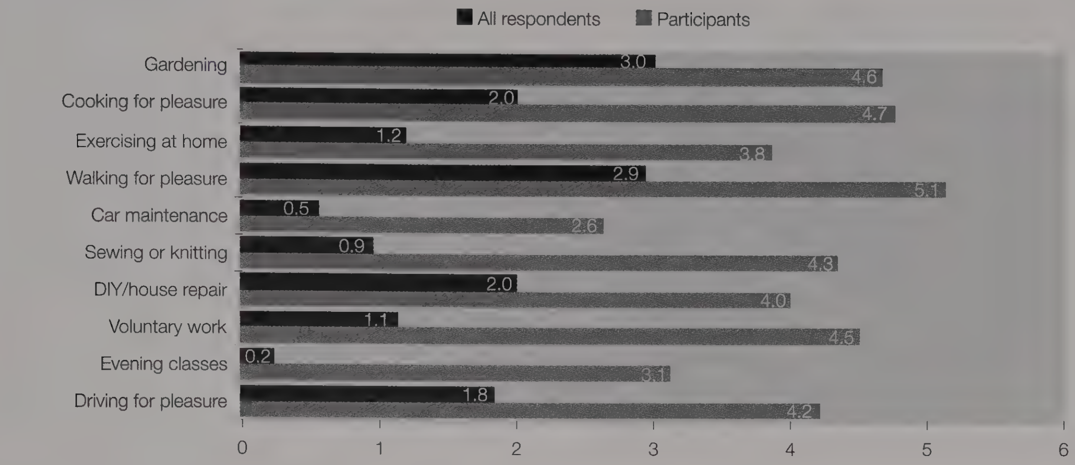
To illustrate the model, we will use football and politics as analogies. At the lowest level, the bottom of the pyramid, is *identification.* This describes the most basic level of participation. In the case of football, it would include all the fans of a particular team. In the case of politics, it would be those who voted for a particular party. The next level is *belonging* – having a sense of shared values and common experience. In football, this would be the fans who have bought a season ticket or who gather together to watch the game on TV every Saturday. In politics, it would be card-carrying members of the party, people who read the newsletters and sometimes attend local meetings. At the top of the participation pyramid is *commitment.* At this level are the people who are passionate enough to devote a really substantial proportion of their time and/or money to something. In football, this would be the people who run the supporters' club, who volunteer to keep the ground tidy and who *never* miss a game. In politics, the equivalent is the activists who attend party conference, organise fund-raising events and canvas during elections.

The participation pyramid can be used to understand consumers' relationships with brands. At the top of the pyramid are the customers who are closest to the brand. They are the loyal core who act as brand advocates, recommending it to others. They devote a high proportion of their spend to the brand, and, if encouraged, may participate in events (clubs, quizzes, social gatherings, etc). In the middle are people who regularly purchase the brand, are happy to identify themselves with it and may talk about it with friends. At the bottom of the pyramid are customers who identify with the values of the brand – they may be regular or occasional customers – but their involvement does not go much beyond this.

Clearly, it will be easier for some brands to move up the participation pyramid than for others. High-interest, 'lifestyle' brands are the best placed. Examples include 'speciality' car brands such as MG, fashion brands such as Nike, and media and entertainment brands, among them Disney, games consoles manufacturers, and Sony. Low-interest product/service categories may never attain the level of participation enjoyed by Harley-Davidson. It will be an uphill struggle to engage consumers in something that is very low on their list of priorities. There are simply too many other things competing for their attention. This last point is critical. As the choices available to consumers increase and their available leisure time stays the same (or declines, due to increased working hours), competition in the 'attention economy' becomes more intense. Knowing how your customers spend the 23 hours in the day when they are *not* consuming your product becomes as important as understanding the hour in the day in which they are. To understand this, we need to ask the following questions:

What are the customers' interests and passions?
On what are they spending their time and money?
How and where are they doing this?

Figure 2.9 Hours spent in an average week on different activities



Source: The Henley Centre, Leisure Tracking Survey, 1998

2.11 Fans and enthusiasts – a new segmentation

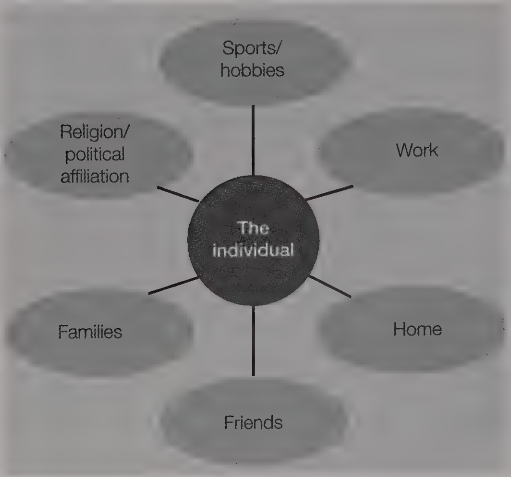
"Football is not a matter of life or death, it's much more important than that"
Bill Shankley, the late manager of Liverpool Football Club

Virtually everyone has something that they are passionate about. It is our hobbies and interests that motivate us and shape our sense of identity. 'On average' people may appear lazy, but when you get beneath the surface, it's amazing how much time and/or money people will devote to the things that interest them. Nick Hornby illustrates this characteristic in the novel *Fever Pitch.* The opening paragraphs capture the near obsessive relationship that the central character has with Arsenal Football Club. Arsenal occupies his daydreams, hopes and desires.

"It's in there all the time, looking for a way out. I wake up around 10, make two cups of tea, take them both into the bedroom, place one on each side of the bed. We both sip thoughtfully; so soon after waking there are long, dream-filled gaps between the occasional remark – about the rain outside, about last night, about smoking in the bedroom when I have agreed not to. She asks what I'm doing this week, and I think: (1) I'm seeing Matthew on Wednesday. (2) Matthew's still got my Champions video. (3) [Remembering that Matthew, a purely nominal Arsenal fan, has not been to Highbury for a couple of years, and so has had no opportunity to watch the more recent recruits in the flesh] I wonder what he thought of Anders Limpar.
And in three easy stages, within 15, 20 minutes of waking, I'm on my way. I see Limpar running at Gillespie, swaying to his right, going down: PENALTY! DIXON SCORES! 2-0!…."

Data from The Henley Centre's *Leisure Tracking Survey* illustrates the extent to which people are prepared to devote their time to the things that interest them. Figure 2.9 shows the hours people spend in an average week on different activities. Whereas, across the entire population, the *average* time spent on activities such as sewing or knitting is low (an hour and a half per week), the time spent by those *participating* in the activity is much higher; in the case of knitting or sewing, as much as four and a half hours per week. Similarly, on average, people spend just under two hours per week cooking for pleasure.

Figure 2.10 The personalisation of community



Source: The Henley Centre, Media Futures 1997

However, narrow the sample to those who take part in the activity and the time spent more than doubles to over four and a half hours.

2.12 Is there anybody out there?

> *"People seek community by whatever means it is available… particularly we seek community in other places as it dissolves in the spaces we physically inhabit."*
> **'Understanding Community in the Information Age', Cybersociety, Stephen G Jones**

People with common interests tend to seek each other out and organise themselves into communities. The benefits of meeting other people with similar interests are obvious – a chance to swap insights and information and socialise with like-minded people. An illustration of this basic human need is the huge number and tremendous diversity of clubs and membership organisations in the UK. It is impossible to know exactly how many such organisations exist, as many are locally based or too small to be registered. The total runs into the thousands. Some of these clubs are quite large. The Henley Centre estimates that there are over 400 organisations with 15,000 or more members. They include professional bodies and trade unions, sports associations and clubs such as The Ramblers Association or the British Horse Society; general-interest groups such as the Camping and Caravanning Club, the British Sub-Aqua Club or the MG Owners' Club, and charities and self-help groups.

In Media Futures 1997, we described the trend towards the 'personalisation of community'. The old idea of community as a localised set of close social networks has now given way to a more varied and non-local range of attachments. The ideal of community is not dead. Instead, it is being customised by individuals who are less restricted by traditional attachments than ever before. The personalisation of community is illustrated by the fact that people now feel they have more in common with people who share the same interests, or watch the same TV programmes than they do with their neighbours or people from the same area.

Figure 2.11 How much do you have in common with…?

A lot ↑

2.9	People with the same hobbies as you
2.7	People who enjoy the same TV programmes as you
2.7	People working at the same place as you
2.4	People who like the same music as you
2.4	People who are the same age as you
2.3	People who read the same newspaper as you
2.2	People who support the same sports teams as you
2.1	People from the same town or area as you
2.1	Your neighbours

↓ Virtually nothing

Source: The Henley Centre, Media Futures 1999

To be successful, a community must have:

- *Mobilisation potential*: an issue, idea or activity with which people can clearly identify.
- *Motivation to participate*: an adequate means of rewarding members so that they feel their participation in the community is worthwhile.
- *Recruitment networks*: an easy-to-use and effective means of getting people together and finding new members.

The first two criteria are relatively easy to get right. There are infinite activities, issues or ideas that people get excited about. The benefits of sharing information, collective action or simply socialising are also self-evident. However, the last criterion, an easy and effective recruitment network, frequently presents a stumbling block. This is where the media have an important role to play.

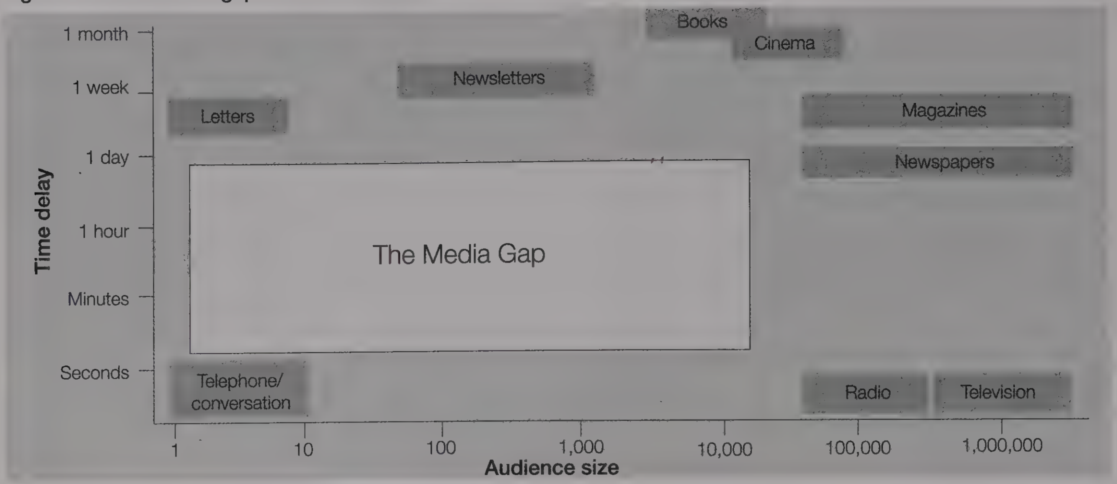
2.13 Connecting people

A significant proportion of media usage serves as a means of keeping in touch with the interests and concerns of other people. The media help people to feel part of a community – whether this is the wider 'imagined community' of the British nation or a relatively small community of people sharing a common interest such as angling or performance cars. Content proliferation has created opportunities for more individualised consumption of the media. For example, the number of consumer magazine titles has increased from 1,200 in 1980 to 2,721 in 1998. This growth is partly due to cheaper production processes making small-circulation titles economically viable. In other areas of the media, choice is also increasing. Increasing numbers of books, CD-ROMs, recorded music, radio stations and niche TV channels enable consumers to pursue specialised interests and hobbies.

Although traditional media (TV, radio, magazines etc) successfully deliver content, they are far less effective at *facilitating contact* between the members of a community. Historically, there simply was not an easy and effective mechanism for consumers to communicate with each other on a many-to-many basis. In 1980, Tetsuro Tomita of Japan's Ministry of Posts and Telecommunication called this the 'media gap'. He plotted the then current 'mass' media and 'person-to-person' media (eg, the telephone) in terms of audience size and the immediacy of communications. An adaptation of his model is shown in figure 2.12. The horizontal axis organises media by the size of the typical audience, and the vertical dimension shows the delay between the time the information is composed and the time it is received. Tomita discovered a gap in the structure of the personal and mass media at the intermediate level of the small interest group or community.

Few people have been acutely aware of the 'media gap'. However, Tomita's analysis draws attention to the possibility that subtle patterns in communication flows can, over time, have significant effects on the nature of our habits and expectations. It also points to the potentially dramatic effect on society of the Internet. Small-group and special-interest-group communications are precisely suited to the Internet. E-mail, newsgroups and chat rooms allow people to come together to talk about the things that interest them. Data from BMRB's Internet Monitor Survey shows that the top two reasons why people decide to connect to the Internet at home are to get

Figure 2.12 The media gap

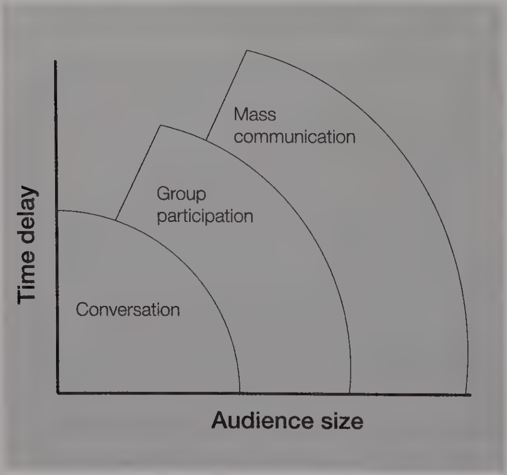


Source: The Henley Centre, Media Futures 1999

information about a particular activity or interest and to send and receive e-mails. What is unique about the Net is that it enables people to combine these two objectives in a way that they never could before.

"Computer-mediated communication will do by way of electronic pathways what cement roads were unable to do, namely, connect us rather than atomise us, put us at the control of a 'vehicle' and yet not detach us from the rest of the world."
'Understanding Community in the Information Age', Cybersociety, Stephen Jones

Figure 2.13 Group participation – filling the media gap



Source: The Henley Centre, Media Futures 1999

2.14 Consumers don't exist in a vacuum

A critical feature of the Internet is that it facilitates *horizontal* communication between groups of consumers in additional to *vertical* communication between consumers and providers. The other feature of the Internet is that it is asynchronous and non-linear. This fundamentally changes our view of communication. Instead of thinking of communication as the process of exchanging a single message between two parties, we need to think of communication as decentralised, evolving and multi-dimensional.

The fluid nature of communication on the Internet makes it ideal as a mechanism for facilitating word of mouth. Word of mouth, of course, is not new. It is, however, growing in importance – we call this trend the personalisation of influence and respect. The Henley Centre's *Planning for Consumer Change* programme has highlighted, during the 1990s, the increasing trust placed in friends, family, colleagues and brands that are 'close' to the consumer. In contrast, brands and organisations that are remote from the consumer have seen their trust levels decline.

The important thing about the Internet is that it *magnifies* and *multiplies* the effect of word of mouth. Ideas, rumours and news spread like wildfire on the Net and it is practically impossible for companies or governments to control it. Automated word of mouth can work both for and against companies. On the plus side, it facilitates consumer comment on, and involvement in products and services. On the minus side, negative comments can have potentially disastrous consequences for companies.

Pentium has its chips

In October 1994 Thomas Nicely, a maths professor at Lynchburg College in Virginia, noticed a flaw in the FPU (numeric co-processor) of Pentium computers in use in his department. He posted a detailed notice of his observations on the Internet. Despite the seeming immateriality of the Pentium flaw to most users, Intel suffered considerable damage to its reputation and was ridiculed through web site joke pages.

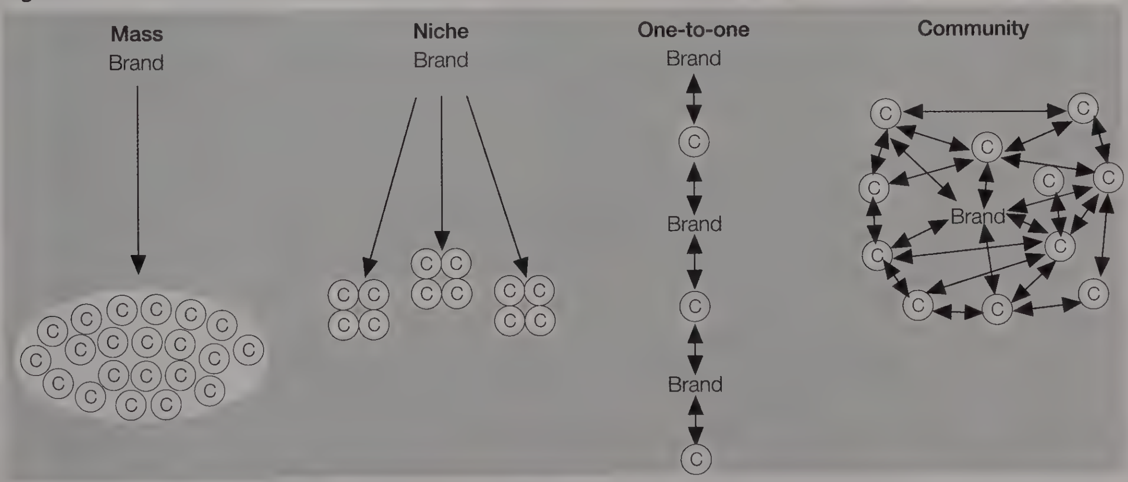
Charlene takes on Chrysler

After a string of problems with the brakes on her Chrysler car, Charlene Blake of Virginia, USA became infuriated with Chrysler's response to her complaints. She posted a message on an Internet news group in an attempt to find others with similar problems with their vehicles and how Chrysler had responded to the problem. A communication then began between hundreds of dissatisfied Chrysler customers, leading to the creation of a web site solely for such interaction and culminating in a 100-strong class action against Chrysler for the manufacture of cars with defective brakes. As a consequence of the action, Chrysler agreed to recall 350,000 cars and vans.

Odwalla keeps its juice

Odwalla, a US fresh fruit juice manufacturer, established a crisis management team after the possible detection of E.coli bacteria in their apple juice products. Misinformation was spreading quickly across the Internet about Odwalla, thus they needed a way to quickly relay factual information. A simple web site was created in one day and then used to relay key messages to the press and the

Figure 2.14 The evolution of marketing



Source: The Henley Centre, Media Futures 1999

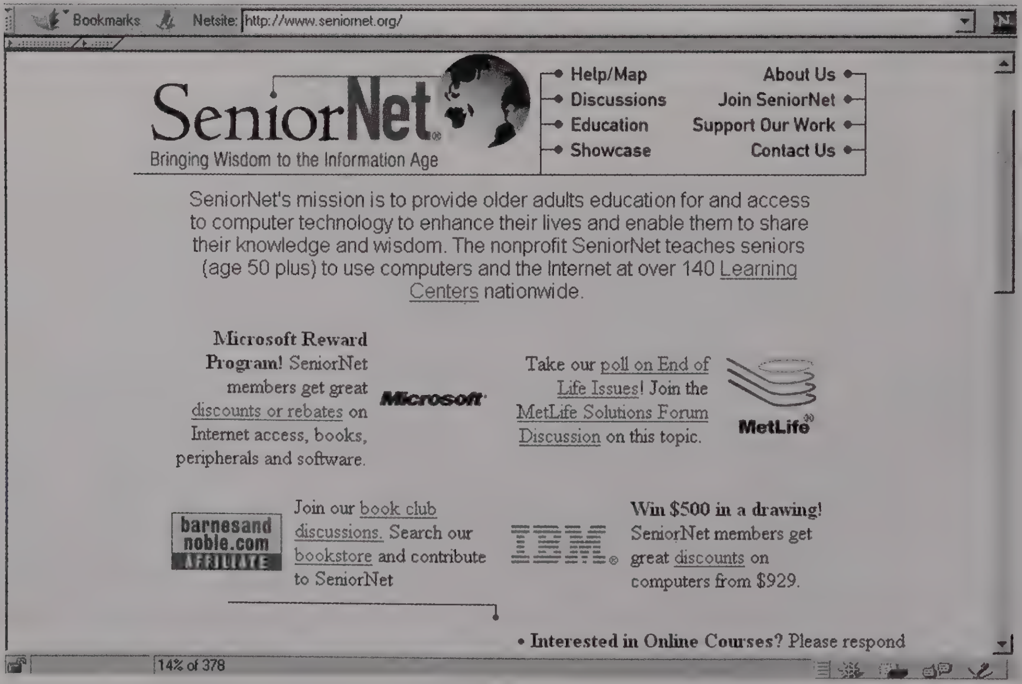
general public. The site received over 19,000 hits in the first 48 hours of its existence, and continued for several weeks at an average of approximately 3,000 hits a day. Odwalla received praise from the press and consumers alike for its use of the Internet in a crisis situation. One family reportedly did not sue the company because of its proactive distribution of information.

The fact that consumers can talk to each other more easily on the Internet poses difficulties for one-2-one marketing. From the consumer perspective, the line between delivering personally tailored offers and treating people unequally may be a fine one. If consumers compare notes about the different offers they receive, they may not like what they find: 'why should Joe Bloggs get a better deal than me?' Alternatively, consumers may see through the hype and realise that, despite having been told they are unique, they have all been given basically the same deal.

Rather than embracing this new model, most companies assume either that people do not talk to each other or view it as something that they should try to control. Even when a communication channel (e-mail) is built into a web site, it is typically assumed that communication will be *vertical*: that is, between the advertiser and consumer, rather than between consumers themselves. This attitude is short-sighted. In increasing numbers, people are finding that on the Internet they can meet like-minded people and exchange information – they are participating in virtual communities of interest.

2.15 Virtual communities – the real Internet revolution

The phenomenal growth of virtual communities on the Internet may prove to be the revolution that changes the media landscape forever. Since the early 1970s, scientists have used the Internet to share data, collaborate on research, and exchange



SeniorNet's mission is to provide older adults education for and access to computer technology to enhance their lives and enable them to share their knowledge and wisdom. The nonprofit SeniorNet teaches seniors (age 50 plus) to use computers and the Internet at over 140 Learning Centers nationwide.

Microsoft Reward Program! SeniorNet members get great discounts or rebates on Internet access, books, peripherals and software.

Take our poll on End of Life Issues! Join the MetLife Solutions Forum Discussion on this topic.

Join our book club discussions. Search our bookstore and contribute to SeniorNet

Win $500 in a drawing! SeniorNet members get great discounts on computers from $929.

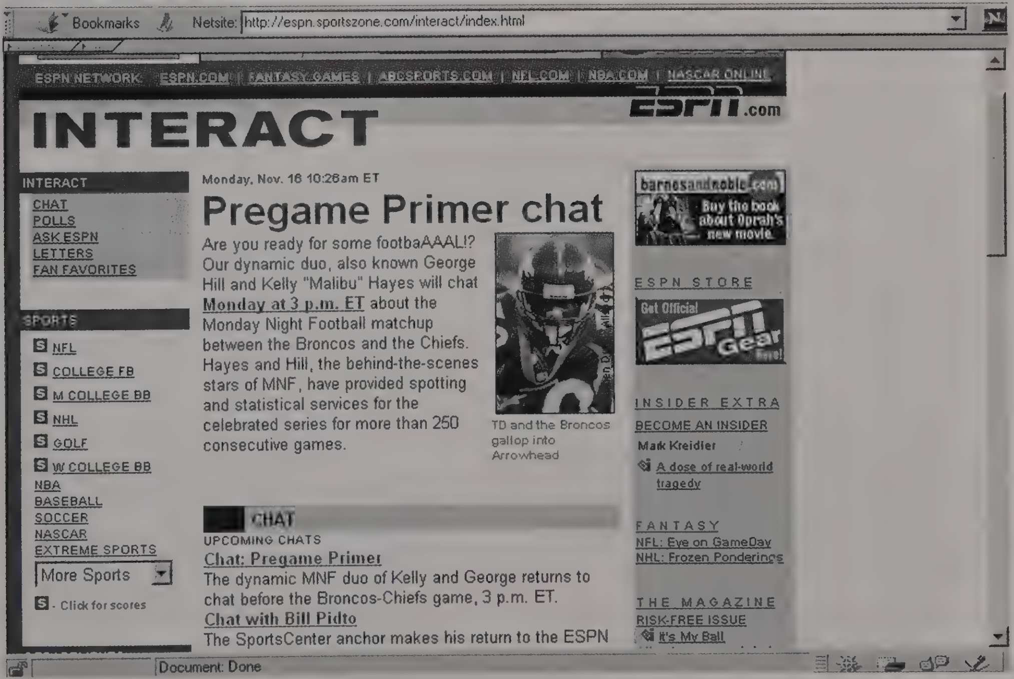
- **Interested in Online Courses?** Please respond messages. Scientists formed interactive research communities that existed not on a physical campus but on the Internet. These were the first virtual communities. One of the earliest and longest lasting virtual communities is The Well, launched in 1985 by a group of technology enthusiasts in northern California. Over the past decade, The Well has developed into a vibrant community of leading-edge thinkers at the intersection of technological and cultural change. More than 10,000 people have communicated with each other through The Well, and many have developed personal relationships on-line and off.

Since The Well, a broad subculture has emerged around thousands of fragmented bulletin board services, resulting in the creation of virtual communities that leverage the capabilities of the Internet to connect people with each other. Today, Usenet (the Internet-based bulletin board) has 25 million users who have organised themselves into at least 25,000 distinct affinity groups. Other examples of virtual communities are described below.

www.seniornet.org

SeniorNet is a virtual community of more than 25,000 people aged 50 and above. Started as a research project at the University of San Francisco in 1986 by Dr Mary Furlong, SeniorNet was incorporated in 1990. On her web site, Furlong recounts her inspiration for SeniorNet: *"My grandmother's life provided the model for SeniorNet. Here was a woman who had friends to whom she spoke every day. When I visited her, she would go across the street to the park, and people were there, sitting on park benches, and they knew each other's names. It's that sense of community that I really felt was somehow lacking in our modern world."*

SeniorNet's mission is "*to provide older adults education for and access to computer technology to enhance their lives and enable them to share their knowledge and wisdom*". SeniorNet publishes a



Monday, Nov. 16 10:26am ET

Pregame Primer chat

Are you ready for some footbaAAAL!? Our dynamic duo, also known George Hill and Kelly "Malibu" Hayes will chat **Monday at 3 p.m. ET** about the Monday Night Football matchup between the Broncos and the Chiefs. Hayes and Hill, the behind-the-scenes stars of MNF, have provided spotting and statistical services for the celebrated series for more than 250 consecutive games.

TD and the Broncos gallop into Arrowhead

CHAT

UPCOMING CHATS

Chat: Pregame Primer

The dynamic MNF duo of Kelly and George returns to chat before the Broncos-Chiefs game, 3 p.m. ET.

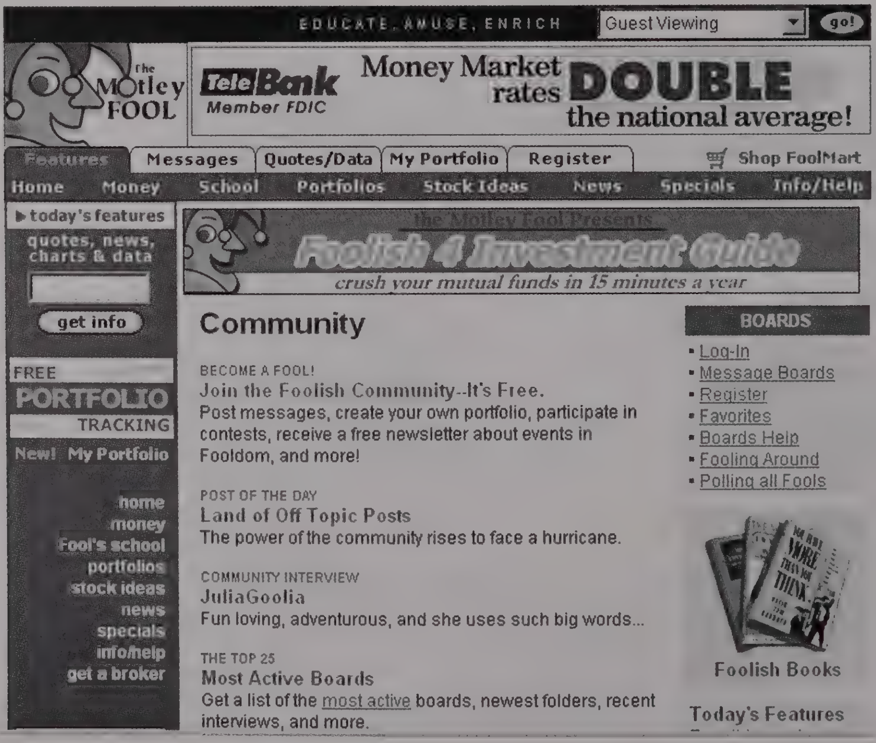
Chat with Bill Pidto

The SportsCenter anchor makes his return to the ESPN quarterly newsletter and a variety of instructional materials. It has over 140 learning centres throughout the US and offers discounts on computer-related and other products and services. It holds national and regional conferences and collaborates in research on older adults and technology. SeniorNet operates on America On-line (keyword: SeniorNet) and on the World Wide Web, where all seniors, whether they are or are not members of SeniorNet, are welcome to participate in the hundreds of discussion topics offered, for instance, Christian Corner, Divorced Pals, Federal Retirees and Senior Entrepreneur.

The enthusiasm of members is captured by one senior citizen who participates in the SeniorNet gardening group and is developing an 'electronic database' of roses: *"We are only beginning to imagine the people with whom we can collaborate"*. Furlong is clear about the role SeniorNet plays: *"The most important aspect of SeniorNet is that the members are the producers. They are the creators. They are the talent. We're just stringing it together"*.

espn.sportszone.com

ESPN Sportszone is an Internet-based sports community that provides a rich mix of information and interaction on specific sports. By providing an array of communication forums for its members, ESPN Sportszone is increasing the opportunity for personal relationships to develop among those who share a passion for sports. In the 'interact' area of the site, details of upcoming chats are posted. Members are also invited to take part in sports trivia contests. They can even create their own fantasy sports teams (using the names of real players), which then compete against teams created by other participants. Other departments include live radio/TV broadcasts and TV sports listings. ESPN The Store On-line sells sports memorabilia and other gear. The site describes this service as follows:



Community

BECOME A FOOL!
Join the Foolish Community--It's Free.
Post messages, create your own portfolio, participate in contests, receive a free newsletter about events in Fooldom, and more!

POST OF THE DAY
Land of Off Topic Posts
The power of the community rises to face a hurricane.

COMMUNITY INTERVIEW
JuliaGoolia
Fun loving, adventurous, and she uses such big words...

THE TOP 25
Most Active Boards
Get a list of the most active boards, newest folders, recent interviews, and more.

"The Store is a natural extension of who we are – the pre-eminent resource for sports information should also offer the ultimate shopping experience for any sports fan. With hundreds of items hand-picked by the worlds experts in sports news and entertainment, The Store offers the best in ESPN-branded and league- and team-logo merchandise, in addition to memorabilia signed by revered athletes. Open 24 hours a day, seven days a week, in cyberspace, The Store brings fans closer to their favourite ESPN shows and personalities with unique products available only at ESPN.com. League- and team-logo merchandise is available for all teams at all times, making it the ultimate resource for the displaced fan."

www.fool.com

Motley Fool is an electronic forum hosted by two brothers, David and Tom Gardner. The site strap line is "*Motley Fool – To educate, amuse and enrich*". The Gardners began Motley Fool for people interested in personal financial investment. They developed a portfolio of stock investments and invited people to comment on the choices made. Today, Motley Fool provides up-to-the-minute business news and information on stock prices; carries out interviews and polls with community members; maintains discussion boards on different aspects of investing; supplies how-to information for would-be investors; sells books and other products related to financial investments and enables it members to open up an account and trade on-line. The following extracts from the site illustrate how Motley Fool exploits the community-building capabilities of the Internet:

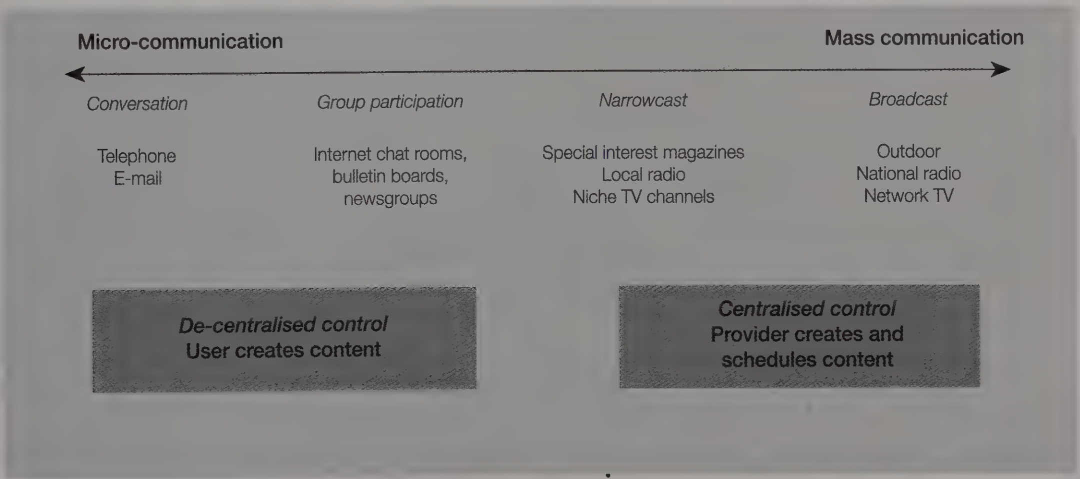
Form an Investment Club
Put Your Heads Together
When it comes to picking stocks, 12 heads are better than one! Gather your fellow Fools and get together to talk stocks. Here are some tips, guidelines and tools

Fools of A Feather
Flocking Together
Is there a special group you identify with? We have folders for Teachers, the Military, Wall Street Professionals, and more!

Weekly Fool
The collected wit and Foolishness of the world's Fools, delivered weekly. Get more info or order.

Polling All Fools
Which Issue Would You Vote For?

Figure 2.15 Control and the media



Source: The Henley Centre, Media Futures 1999

The Fool celebrates Election Day with a poll of our own. Which referendum would you most likely vote for?

Community Interview
Dovelyn
After fending off a mugger and the cynical police, Dovelyn is well prepared for full service brokers.

Today, Internet on-line communities have a combined audience of more than 60 million unique visitors per month. These visitors journey to the sites for an average of 30 minutes each. Sites offering services such as personal homepages, chat and e-mail are among the fastest growing on the Internet. Tripod.com, GeoCities.com, Angelfire.com and Xoom.com have recently been among the fastest-growing web sites. The interests catered for by community sites are incredibly diverse. Consumers are attracted to the sites because they give them an outlet for creativity, instant access to and potential recognition among a potential audience of millions.

2.16 All power to the consumer

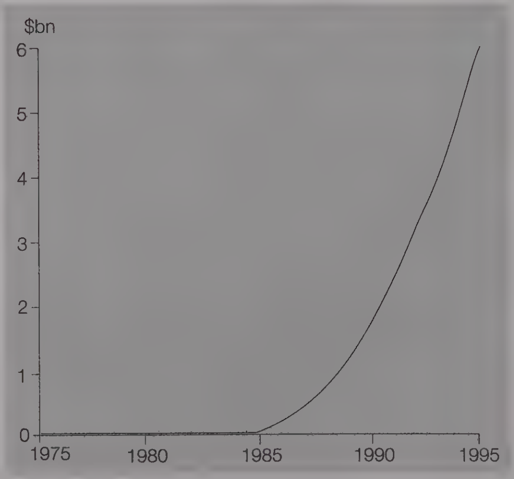
On-line communities are important not simply because they enable people to talk to each other. They illustrate how the Internet is shifting the balance of power between the provider and the consumer. There are important parallels between community sites and the two examples of new business models emerging on the Internet described earlier – Value-Direct and Request. Each of these services changes the balance of power between the provider and consumer, but in a different way.

In the case of Value-Direct, the consumer is empowered because they can go on-line at any time to review prices and features across a wide range of brown and white goods. Request empowers the consumer by allowing them to review competing offers from service providers *before* they have to identify themselves to the provider. In both these examples, the element of power that is shifting is control over the buying process. Request and Value-Direct give the consumer more control over how they go about making their purchase decisions.

On-line communities go even further. They put the consumer in control of *content creation* as well as distribution. With traditional broadcast media, control of both these areas rests firmly with media owners. They create the content and decide when to release it to the consumer (scheduled on TV, published in a newspaper or magazine etc). On the Internet, consumers can create their own content and choose for themselves when to go on-line and what to look up. The on-line community sites already demonstrate the willingness of consumers to do this.

We would not go so far as to predict that control over *all* content creation and distribution will shift to consumers. Early

Figure 2.16 Microsoft revenues – an example of increasing returns



Source: 'Net Gain - Expanding Markets through Virtual Communities', Hagel & Armstrong proclamations that the Internet would spell the end of broadcast media were extreme. There is still great deal of media content that consumers are happy with and indeed prefer to have provided by media owners. The point is that *alongside* these traditional media, the Internet is emerging as a place where consumers can find an outlet for their creativity and need to socialise. The challenge for media owners and advertisers is to understand this development and discover how the phenomenon can be used for commercial advantage.

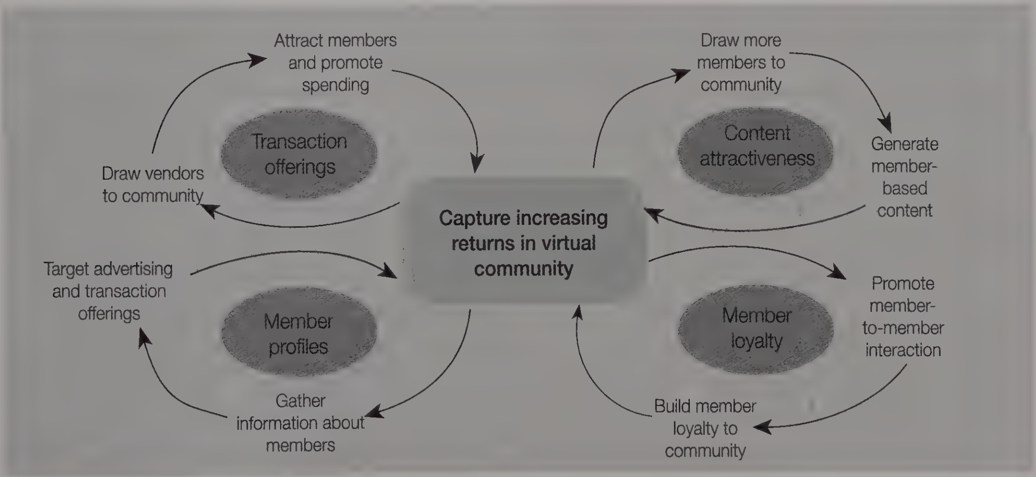
2.17 The business benefits of virtual communities

The early virtual communities, such as The Well, were not business-oriented. They existed purely for social or professional reasons. Motivated by passion rather than profit, most community members opposed the very idea of commercial activity on the Internet. Recently, however there has been much discussion in the business press about the potential benefits of marketing to virtual communities. Two of the strongest advocates are John Hagel and Arthur Armstrong, both management consultants at McKinsey & Company. In their book *Net Gain – Expanding Markets Through Virtual Communities,* Hagel and Armstrong say:

> *"We believe that commercial success in the on-line arena will belong to those who organise virtual communities to meet multiple social and commercial needs. By creating strong virtual communities, businesses will be able to build membership audiences and use those audiences to bring in revenues in the form of advertising, transaction fees and membership fees."*

Hagel and Armstrong argue that the economics of virtual communities are attractive because they offer the potential for increasing returns. In other words, they obey the rule 'the more you sell, the more you sell'. Until Bill Gates made a killing at Microsoft, increasing returns were thought to exist only in textbooks. Microsoft saw and exploited the increasing returns potential of business webs – the idea that the more people participate in the business web, the more valuable the web becomes. In Microsoft's case, the business web was the array of companies designing products based on the Microsoft operating system standard. The more companies that

Figure 2.17 The dynamics of increasing returns


Attract members and promote spending
Transaction offerings
Draw vendors to community
Capture increasing returns in virtual community
Target advertising and transaction offerings
Member profiles
Gather information about members
Draw more members to community
Content attractiveness
Generate member-based content
Promote member-to-member interaction
Member loyalty
Build member loyalty to community

Source: 'Net Gain - Expanding Markets Through Virtual Communities', Hagel & Armstrong joined the Web, the more useful the entire system became to computer buyers and the more units of the operating system Microsoft sold. Figure 2.16 shows the exponential growth of Microsoft's revenues after a slow ramp-up period as it built its web of users.

The potential sources of revenue for a virtual community are:

- *Subscription fees* ~ a fixed monthly charge for participation in the community.

- *Usage fees* ~ a charge based on the number of hours of usage or the number of pages accessed or some combination of the two.

- *Member fees:content delivery fees* ~ a charge for downloading specific information, such as a company investment report or a magazine article

- *Service fees* ~ a charge for specialised services such as a notification service when specified vendor products are offered for sale at predetermined prices.

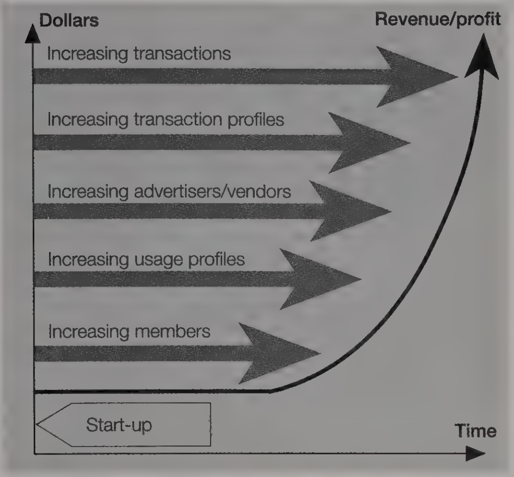
Hagel and Armstrong argue that virtual communities can create a series of interactive and reinforcing virtuous cycles that can be actively managed to accelerate and magnify revenue growth. Figure 2.17 presents an overview of these cycles. The first is the content attractiveness dynamic loop. It reflects the fact that member-generated content is an essential source of content attractiveness for the community and that content attractiveness in turn drives members to join and stay in the community. The loop is self-reinforcing: the more members the community has, the more member-generated content it will accumulate and therefore the more members it will attract.

The member-loyalty dynamic loop highlights the role of essential variables in driving membership churn and usage rates. For example, the more the community can promote personal relationships between its members, the more they are likely to participate and the less likely they are to leave. Similarly, the more customised the interaction a community offers (eg, the software 'learns' a member's preferences based on their previous activity), the more loyal to the community members are likely to become. Again, the loop is self-reinforcing: more loyalty generates more usage, more participation and more personal relationships, which in turn generate more loyalty.

As members are drawn into the community, the member-profile dynamic loop kicks in. This loop draws attention to the critical role member profiles play in generating economic value for the community. Its effectiveness hinges on the availability and deployment of technology for capturing information. Member profiles significantly enhance the ability to target advertising and draw in appropriate vendors. The interaction of members with advertisers and vendors generates even more detailed member profiles, thereby continuing the cycle.

The final loop is the transaction-offerings dynamic loop. This captures the reinforcing effects of expanding the range of products and services offered to the virtual community. As the range increases, more members are likely to join the community, while the members already in the community typically develop a greater willingness to engage in transactions. This increases the attractiveness of the community to vendors, which draws in more vendors and increases the number of products and services available for sale. More product and service offerings lead to more

Figure 2.18 The drivers of virtual communities


Dollars
Revenue/profit
Increasing transactions
Increasing transaction profiles
Increasing advertisers/vendors
Increasing usage profiles
Increasing members
Start-up
Time

Source: The Henley Centre modified from 'Net Gain - Expanding Markets Through Virtual Communities', Hagel & Armstrong

transaction activity, which leads to more offerings, and the cycle begins again.

All four of the dynamic loops are examples of the increasing returns achieved through network effects. The aggregation of members, member-generated content, member profiles, and vendors in an increasing returns game. The more a community has, the more incentive others have to join, and therefore the more the community will get.

2.18 Jumping on the community bandwagon

Companies are catching-on to the potential benefits of virtual communities. For example, in August 1998, Yahoo launched 'Yahoo Clubs' (http://clubs.yahoo.com), a free community service combining message boards, chat and tools to assist community builders to create and host *on-line* communities. Between August and October, over 8,000 new communities were established. In August 1998, another Internet search engine, Excite, announced 'Excite Communities'. This is also a free service combining message boards, chat, a community calendar, photo album, contact lists and other features. The launch was scheduled for autumn 1998. In October 1998, Microsoft Corporation launched a new community service comprising 120 discussion areas (http://communities.msn.com). The service differs from other community areas in that it is built on Usenet technologies rather than web forum technologies.

In the spring of 1998, Forrester Research Inc found that of the 25 on-line merchants and 25 brand marketers it interviewed, 60% have or plan to offer community-building features such as chat, message boards and member-only areas within the year. Recently, two major players, Citibank and Procter & Gamble, announced their intention to develop virtual communities. In July 1997, Citibank entered into a multi-year agreement with the Mining Company to harness its virtual community model to connect Citibank's customers with information and other people with shared interests. Under the proposed agreement, Citibank will use the Mining Company's patent-pending community-building model to create Customer Communities ™ on Citibank's web site, focusing on Citibank-specific information.

"We're looking forward to using this model as a new way to interact with Citibank's global customer community. By offering our customers the special web features of bulletin boards, chat rooms and e-mail, we add to our current modes of interfacing with them, with an added feature – that of interacting with other customers, in real time."
Ed Horowitz, Citibank EVP Advanced Development

The Mining Company will build virtual communities around Citibank's products and services utilising bulletin boards, chat rooms, e-mail and other features. These Customer Communities will enable Citibank's customers to interact with other customers and with a

Citibank guide. With the guide's help, customers will be able to learn about Citibank's product offerings in a 'web friendly' environment that is designed to encourage discussion among the members of the Customer Community. The Guide will present the relevant resources at Citibank and help customers to find the information and answers they are searching for. For example, a customer looking for information on Citibank's credit cards will visit Citibank's Credit community, where a Citibank guide will present Citibank's various credit card services and be available to answer the customer's questions. Customers will be encouraged to discuss options and interact with other customers using bulletin boards, chat rooms, e-mail and other features.

Scott Kurnit, founder of the Mining Company says: *"This represents an entirely new model for customer service and interaction. By empowering customers to make informed choices about goods and services, and by presenting them with all of the options, we believe Citibank will be gaining stronger loyalty and deeper relationships with their customers."*

Procter & Gamble announced in October 1998 that it is developing a series of web sites targeting particular groups of consumers, from teenagers to pensioners. The first site will aim to be a stimulating web environment for teenagers. A spokesperson from P&G said: *"FMCG companies' experience shows that there is little reason why a consumer should visit, say, a Clearasil site. We are trying to mimic the trend for Internet surfers to visit 'virtual communities' or 'virtual shopping malls'."*

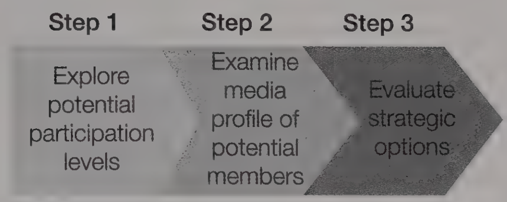
Rich Wilson, vice-president of media at P&G Worldwide said in *Campaign* in September 1998: "We *are always on the lookout for media vehicles which can effectively communicate the messages we want to deliver, and do so with good value… with the convergence of television, telephony and computer technologies, we may find additional ways to communicate our message that are more effective and efficient than broadcast is today. I suspect that television will continue to be an important part of our media plans, but if other media vehicles come along with improvements in efficiency, some of our dollars may well flow in that direction".*

2.19 Developing a community strategy

Large players, such Procter & Gamble and Citibank, spend hundreds of millions of dollars on conventional advertising. They can afford to, or perhaps cannot afford *not* to, experiment with a new medium that may prove effective as a means to develop closer customer relationships. Many companies looking to add community-building features to their sites may be wasting their time, however. It is a mistake to think that *any* provider can create a virtual community. A community cannot be forced – it requires a foundation based on consumers' shared mutual interests and a willingness to devote time and/or money to this interest. Already some attempts to build virtual communities have failed to deliver on the promise. Two examples of community 'ghost towns' are Tandy Corp's Radio Shack and Tambrands Inc's Tampax.

To understand why some virtual communities fail, it is useful to revisit the three requirements of successful communities – mobilisation potential, motivation to participate and recruitment networks. The Internet goes a long way to meeting the last criterion, but not the first two. Putting it simply, not all brands have sufficient pulling power to create a virtual community around themselves. While Harley-Davidson riders may

Figure 2.19 Community evaluator


Step 1
Step 2
Step 3
Explore potential participation levels
Examine media profile of potential members
Evaluate strategic options

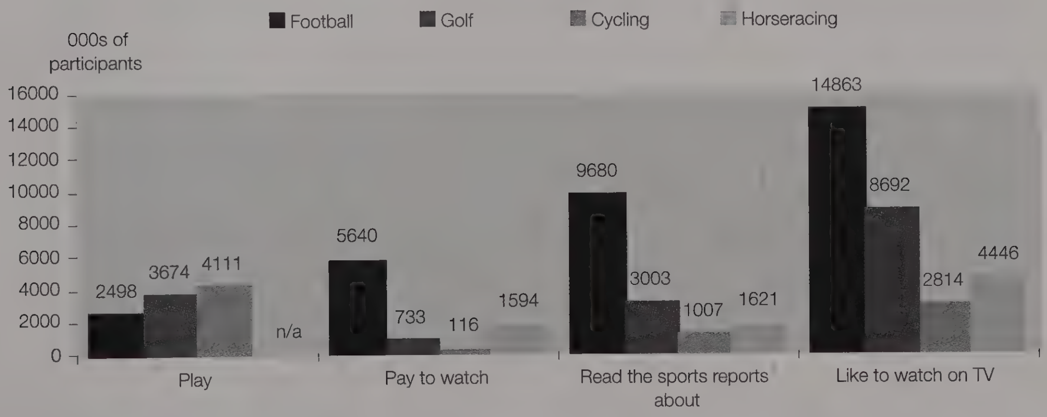
Source: The Henley Centre, Media Futures 1999

enjoy participating in chat sessions about their life and motorcycles, such 'brand-lifestyle-identifications' are relatively rare. Investing in community-building features on Web sites based around brands with little pulling power is of questionable value. In fact, the decision to even have a web site at all may be questionable.

Harley-Davidson is a community with deep *attachment* (it is right at the top of the participation pyramid), but it has fairly narrow *appeal.* It is still an attractive prospect as a potential virtual community, however. This illustrates a crucial distinction between marketing to communities and traditional marketing strategy: when it comes to communities, *size isn't everything.* Just as important as the size of the community, is the depth of attachment that consumers have to it. This depth of attachment will be demonstrated by the members' willingness to participate in virtual discussion groups and other activities, including transacting.

The most lucrative communities will be those that have *both* breadth of appeal *and* depth of attachment. Examples include popular sports such as football. Tottenham Hotspur has launched a product combining Internet service provision with community-building extras. CyberSpurs gives fans a personal '@spurs.co.uk' e-mail address, web page space, Internet access, as well as a Spurs mouse and mat. Many Premier Clubs have had web sites for a number of years, but Spurs is the first to create an on-line community where fans can create their own web pages. By developing a virtual community, Spurs hopes to improve relationships with its fans and build a valuable database of customers to whom it will be able to offer tailored products. Spurs has been pleased with the response to its site, particularly from outside the UK. (The club claims that 45% of the visitors to the site come from overseas). The popularity of the Premier League web sites is attracting the interest of advertisers. For

Figure 2.20 Participation levels in four sports



Source: BMRB, Target Group Index, 1998

example Ford, Budweiser, Sky TV and British Telecom have all advertised on the Newcastle site.

Other examples of brands or interests with sufficient breadth and depth to become the basis for virtual communities include popular bands such as Oasis or the Spice Girls, major entertainment brands such as Disney, and popular and engaging interests such as wildlife or cookery. Few companies are in the enviable position of owning a brand or operating in a category with both broad appeal and deep attachment. Most will need to grapple with the trade-off between breadth and depth. Thus, as the size of the catchment-pool for a community is increased, its attractiveness and meaning to potential members is likely to be diluted. For example, the Harley-Davidson Owners Club is a clearly defined community generating high levels of interest and participation among its members. A general community for bike riders would be unlikely to stimulate the same level of interest and participation. This presents a conundrum for marketers developing a community marketing strategy – how do you resolve the apparent conflict between maximising breadth of appeal and maximising depth of attachment?

To assist with the development of community marketing strategy, The Henley Centre has developed a three-step conceptual process – the Community Evaluator. The three steps are:

1. Explore potential levels of participation in the community

In figure 2.8 we described the Participation Pyramid, starting with identification, moving up to belonging and ending at the top with commitment. This framework provides a basis for anticipating the different levels and nature of participation for potential communities. The methodology used to quantify the participation pyramid will vary by sector. In some instances, existing customer data can be used to assess different levels of participation, in other instances original consumer research will be required. To illustrate the approach, we have used BMRB's Target Group Index (TGI) to evaluate participation levels for four different sports: football, golf, cycling and horse racing. This analysis illustrates differences in the nature of participation in each sport and also shows the size of the potential community at each participation level. For example, football and horse racing are more popular as spectator sports than cycling or golf. Thus, football commands far larger TV audiences, and more people are prepared to pay to watch a football game or horse racing than a golf match or a cycle race.

2. Examine the media profile of potential community members

Clearly it is important to understand the level of Internet access among potential virtual community members. In part 3, Understanding the Internet, we introduce a new segmentation of current Internet subscribers, near subscribers (people about to go on-line) and possible future subscribers. These segments are quantified and profiled, not only in terms of their Internet usage, but also in terms of their general lifestyles, interests and attitudes. We have also developed forecasts for Internet penetration to 2003. This analysis, and the underlying data upon which it is based, can be used to understand potential access levels for virtual communities. Increasingly, successful virtual communities will be those who cleverly leverage new and old media vehicles to attract new members into the community. Thus, understanding virtual community members' consumption of *traditional* media is also important. The Henley Centre's proprietary COMMET model can provide this insight and help to inform the marketing and recruitment strategy for a virtual community.

3. Evaluate strategic options for the community

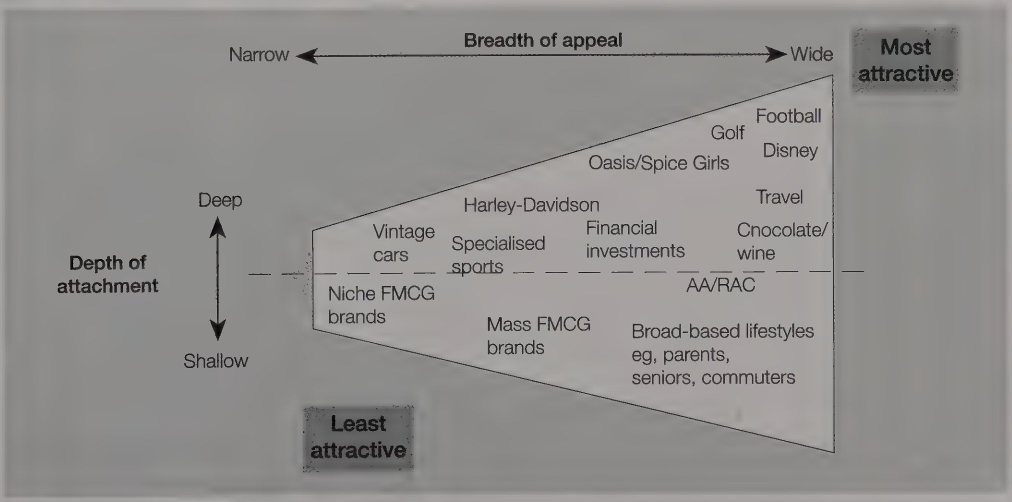
The final stage of the process is to evaluate the strategic options for the virtual community. This will be a function of the sector, interest activity or brand. As explained above, the key drivers are the trade-off between breadth versus depth of participation and the media consumption profiles of potential community members. Figure 2.21 compares, conceptually, the attractiveness of different virtual communities.

The key question for categories falling below the 'depth of attachment' line in figure 2.21 is: can they generate sufficient participation to justify building a virtual community? This raises questions about Procter & Gamble and Citibank's strategies for developing virtual communities. P&G is not attempting to draw consumers to a site narrowly focused on washing powders, personal care products or specific brands. Instead, their strategy is to 'own' entire demographic/lifestyle communities on the Internet. To achieve this, P&G must first understand the wider interests and concerns of each lifestyle group. Then it will need to invest in content and services to encourage member participation. This will take considerable time and money to develop. Citibank is attempting to develop a community around its portfolio of financial services products. Motley Fool shows it is possible to create a vibrant community of people interested in investing in shares. We remain sceptical, however, about the possibility to extend this model to low-interest financial services categories such as banking, insurance and savings products.

2.20 A model for the future

It remains to be seen whether Procter & Gamble or Citibank will be successful in their attempts to build virtual communities. In essence, their approach reflects a *provider* driven mentality, ie, 'with sufficient investment we can persuade consumers to join our community'. The Henley Centre would argue that changes in consumer

Figure 2.21 Evaluating virtual communities



Source: The Henley Centre, Media Futures 1999

behaviour and the Internet-enabled shift of power *away from providers towards consumers* creates a situation where this model should be turned on its head.

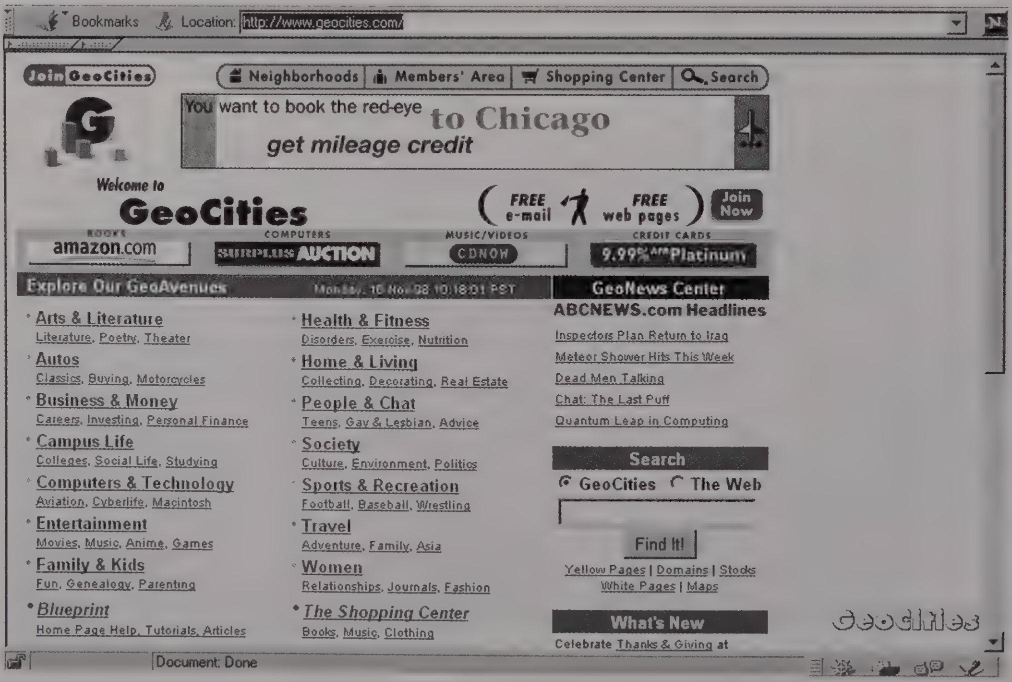
Instead of creating *new* virtual communities, why not exploit the communities that *are already springing up on the Internet*? After all, people, not providers, create communities; they are emerging organically, just as they always have done. The Internet is simply facilitating the process by making it easier for people to get together. Thus, rather than focusing on providers and their brands, we should focus on the consumer – what are the interests and desires that are driving them to go on-line? Critically, people participating in communities are *already engaged* with something that interests them. They are *self-selecting*. This makes them very attractive to advertisers, content providers and merchants.

Figure 2.22 Percentage reach of top Web domains (from home)

	June 1998	July 1998
1. aol.com	44.9	46.0
2. yahoo.com	41.8	40.5
3. geocities.com	25.5	25.9
4. netscape.com	24.5	25.4
5. microsoft.com	23.8	27.3
6. excite.com	22.9	23.2
7. infoseek.com	14.9	15.6
8. tripod.com	13.7	13.5
9. angelfire.com	12.4	15.1
10. lycos.com	11.8	14.5

Source: MediaMetrix

One development that will make it easier to exploit the virtual communities emerging on the Internet is their consolidation around a small number of dominant sites. Figure 2.22 illustrates this trend. Two of the largest Internet sites, AOL and Yahoo, regularly achieve over 40% reach in a single month (ie, 40% of all Internet users visit the site at least once a month). Currently, two of the biggest and most successful virtual communities are GeoCities and Tripod. Each of these sites has a following of around two million members.



Location: http://www.geocities.com/

Inspectors Plan Return to Iraq
Meteor Shower Hits This Week
Dead Men Talking
Chat: The Last Puff
Quantum Leap in Computing

● GeoCities ○ The Web

Celebrate Thanks & Giving at

Document: Done

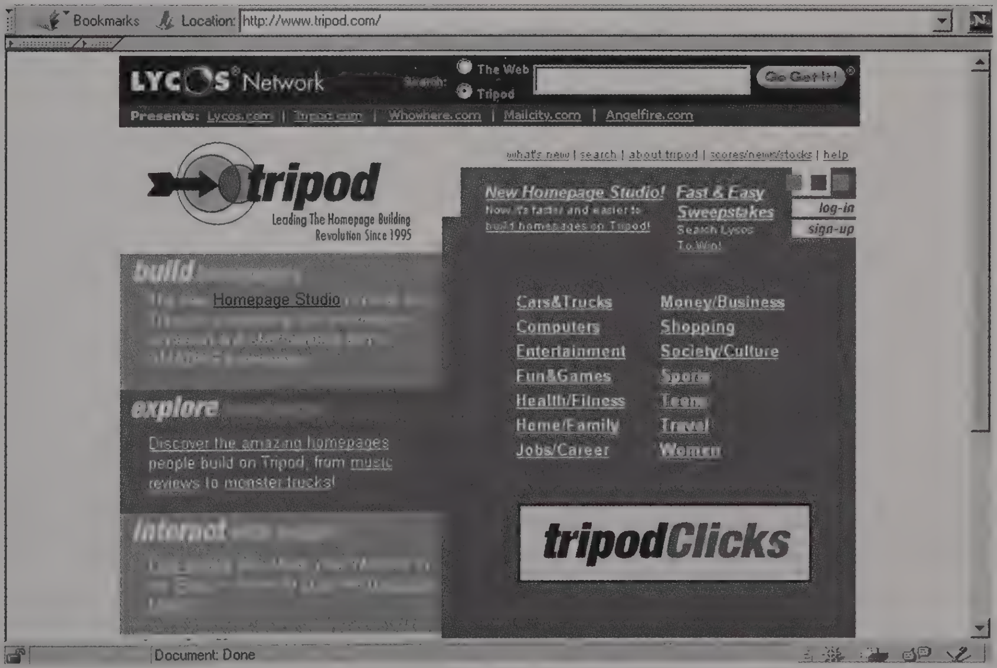
Their success stems from their ability to cater to a wide range of interests and the various ways in which they encourage their members to participate in the community.

www.geocities.com

GeoCities was founded in 1994 as a forum for the free expression of ideas. Membership has grown from approximately 10,000 in October 1995 to more than 2.1 million in mid 1998, making GeoCities the largest single virtual community on the Web. GeoCities has 40 themed 'neighbourhoods'. These allow its two million member 'homesteaders' to interact with others on their areas of interest. The neighbourhoods include arts and literature, cars, business and money, computers and technology, entertainment (movies, music, TV and games), family and kids, home and living, people and chat, shopping, society (culture, environment, politics), sports and recreation and travel. The GeoCity homesteaders have created 17 million web pages (although the company says it counts member-built pages that have gone dormant).

In December 1997, GeoCities agreed a joint venture with the leading Internet search engine, Yahoo. As a result of the deal, Yahoo now links to GeoCities and offers its users a chance to become GeoCities members. Yahoo also took a 2.6% stake in the company. In August 1998, GeoCities' IPO attracted a lot of attention. Its market capitalisation was $1 billion before the recent stock market fall. All this based on revenues in 1997 of $5 million and losses of $8.6 million.

Many investors remain highly enthusiastic for GeoCities, despite tiny sales. The reason for the excitement is the potential to exploit *on-line* communities for marketing purposes. GeoCities aims to increase its revenue through advertising, premium member services and electronic commerce partnerships. In March 1998, the company launched GeoShops, an electronic commerce solution that enables its homesteaders to 'commerce-enable' their site



Now it's faster and easier to build homepages on Tripod!

Discover the amazing homepages people build on Tripod, from music reviews to monster trucks!

to sell products on the Internet. Another initiative is GeoCities House-Warming, a product sampling and couponing programme designed to acquaint consumers with advertisers. The programme connects advertisers with homesteaders through one-time offers of virtual coupons, gift certificates, product samples, discounted software and free software downloads.

www.tripod.com

Tripod is the second largest on-line web community. Founded in 1992, Tripod provides community and entertainment centred around 14 Zone topics: entertainment, computers/ Internet, jobs/ career, home/family, women, society/culture, health/fitness, fun & games, money/business, shopping, teens, cars & trucks, travel, and sports. In February 1998, Tripod was bought by Lycos, one of the highest traffic Internet search engines. Since the acquisition, Tripod's membership has grown significantly, adding nearly 6,000 new members each day. Today Tripod has just under 2 million registered members.

Tripod offers to its member's similar services to GeoCities. The site is organised into four main sections or 'channels'. The *build* channel supplies tools to enable members to create their own homepages on the Internet. The *explore* channel takes users to a search and navigation site that enables them to access the Tripod member pages. The interact *channel* provides a forum for meeting other members of the community through chat rooms and message boards. Finally, the *buy/ sell* section lets users buy books and music from e-commerce partners CDNow and Barnes & Noble, or build their own on-line retail store to sell their own goods.

Community-building sites such as GeoCities and Tripod may prove to be the model that turns marketing fully on its head. However, despite considerable success in attracting consumers to join them, GeoCities and Tripod are not yet established as fully fledged platforms for advertising and transactions. A first step is selling advertising on user-generated content. There has already been resistance to this from big brand advertisers and merchants. Ironically, the difficulty may lie in the fact that big players are reluctant to abandon their provider-driven mentality and cede that much control to the consumer. As the Internet matures as a medium, however, the momentum behind the shift of power from providers to consumers is likely to prove irresistible. As we move into the next phase of development for the Internet, virtual communities could become the central feature in the business landscape, creating value and customer relationships on a broader plane than even the most ambitious marketer has imagined.

MEDIA FUTURES 1999

understanding the internet

3 Understanding the Internet

Introduction

The Internet is something that everybody has heard of, but nobody completely understands. It is the hottest technology on the block – a technology that is going to make new businesses and break old ones. The dash into the on-line world has been likened to the Californian gold rush of 100 years ago. Fortunes are there to be made and lifetimes there to be squandered chasing the dream. In this chapter of *Media Futures 1999,* we address four questions that are fundamental to the future of the Internet. These questions are:

- What is the Internet?
- Who is using it today and who will be using it tomorrow?
- What is the Internet used for today?
- How will it be used in the future?

The answers to these questions provide a powerful understanding of the technology underlying the Internet, its users and its future development. It is essential reading for companies already making investments in Internet sites and services, and for companies in the early stages of developing their Internet strategy. Below we briefly outline the contents of each section.

What is the Internet?

As something that has only recently caught the attention of the wider business community, and is conceptually new and unknown, the Internet begs a host of questions, none more important than 'what exactly is it?'. What the Internet *is,* and what it does *best* was set out by the people who created it. By examining these original aims, it is possible to understand the direction that the Internet will take in the future and thus develop strategies that will exploit its true potential.

Section 3.1 examines the ideas behind the Internet. It provides a description of the evolution of Internet technology and pinpoints the future direction of the Internet. Although we describe the technology of the Internet, we do so in a way that avoids technical jargon. The idea of the *city* is used to build a simple metaphor to understand the Internet. The result is a holistic picture of the Internet and a strategic framework that will assist companies to exploit its full potential.

Who is using the Internet today and who will be using it tomorrow?

With the Internet changing so rapidly, it is not enough to understand today's users – tomorrow's users must also be understood. Using the Media Futures 1999 survey, The Henley Centre has developed a unique segmentation based on consumers' experience with and confidence about interactive digital media. The segmentation moves beyond thinking only about the technology to focus on the *people* themselves: it explains the lifestyles, values and attitudes of consumers in five different segments based on their propensity to use the Internet.

What is the Internet used for today?

In different situations, different groups of consumers will turn to different media to fulfil their needs. Given a particular set of circumstances, a consumer will semi-automatically choose one medium over the others available. We call this the 'media reflex'. In this section, we examine the media reflex for current and potential Internet users. This analysis provides insight into how the Internet competes with other media for consumer mind-share.

This section also uses BMRB's on-going Internet Monitor research to provide an in-depth picture of current consumer behaviour on the World Wide Web. We describe how often consumers log-on, how long they spend on-line, which sites they like, how they find them and what they do when they get there.

How will the Internet be used in the future?

As the Internet becomes a serious marketplace, it is crucial to know how many consumers are going to be on-line, how much they will spend and on what goods and services. In Section 3.4, we examine all three of these areas, and forecast the size of the on-line population and its spending to 2003. We also address the question of the location of Internet access and provide forecasts of the numbers of people accessing the Internet from both inside and outside the home.

3.1 What is the Internet?

Back to the future

The ideas that brought the Internet into being are almost 50 years old. The first incarnation of the Internet appeared 30 years ago. The Internet as we know it today is pushing 20, and the World Wide Web is getting on for its 10th birthday.

To understand the future of the Internet, it is important to understand the aims and objectives of the people who built it and their vision for its future. The Internet has functions that it was designed to do well, it has a defined purpose and a set of uses. Understanding these initial design principles will enable companies to develop an Internet strategy that runs *with* rather than against the grain of its design.

In all new markets there is great uncertainty, and a pioneer who launches a new product takes a leap of faith. The ability to convert these into certainty is nearly impossible due to the constraints of market research. Consumers find it difficult to respond to products of which they have had no experience or knowledge. Instead, innovators must develop a vision of the possible market for their product, the uses of the product, and the needs of consumers. This vision becomes embodied in the research, development and design of the product. It sets the agenda for the development team, provides it with a framework to understand the project, and forms the basis from which to gauge potential returns on investment.

In the first instances of a product being brought to market, the definition of demand and consumer needs constructed by the innovators is often mismatched with the real world: failure is rife. This process of failure provides the basis for a clearer picture of potential consumer demand, and the product is tweaked, improved and repositioned accordingly. Over its lifetime, the product will be improved, upgraded, repackaged and added to. This process of evolution is particularly rapid on the Internet. However, it can only occur within the parameters of the first incarnation, the 'mark one'.

The importance of the 'design paradigm'

The process of product evolution is bounded – what a product becomes five years from launch is already inscribed within it on the day of its launch.

On the day of its launch, a new product carries with it the assumptions developed when the product was still on the drawing board – assumptions about what is feasible for it to achieve and what consumers will use it for. These are what David Teece, a leading thinker on the process of innovation, calls the 'design paradigm'. The design paradigm sets the product on a journey and determines the parameters within which change can occur. The paths of development that the product can take become restricted over time as those responsible for its development build knowledge and experience of the marketplace. The potentials for change gradually narrow and, as these changes stabilise, the product matures. Hindsight reveals that the original product was an approximation of what it has become and that its lifecycle was to a greater or lesser degree already set when it was brought into the world.

The important points to note are that:

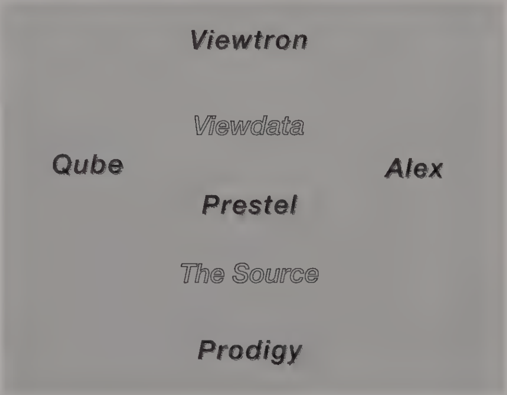
- the process of innovation is continuous – there is market feedback and incremental improvement;
- the design paradigm sets boundaries on the process of continuous innovation – there is a rationale that focuses effort in specific areas;
- the boundaries narrow as the innovators' experience and knowledge accrue – there is a learning curve;
- the development of design paradigms is not determined by the 'nature' of the technology itself, but by decisions made by the innovative people and companies.

The design paradigm – an idea in search of a market

The hope of every company is that its design paradigm will become the industry standard.

One only need think of JVC with VHS, Microsoft with DOS and Windows or Intel with x86 microprocessors to see how this translates into practice. JVC's VHS design paradigm had to compete against Sony's Betamax; Microsoft had to compete against C/P/M, Apple and OS2; and Intel against Motorola, among others. Conversely, Sony and Phillips took a collaborative approach with their CD technologies, agreed to a joint design paradigm, and so conserved resources

Figure 3.1 The ones that failed… the graveyard of digital networked services



Source: The Henley Centre, Media Futures 1999

that would otherwise have been expended in competition.

The competition and collaboration between firms is symptomatic of the moment before a dominant design paradigm has emerged to become the market leader. At this time, a process of disagreement and agreement around competing models for the design paradigm takes place. The process is driven forward by the belief that consumer demand is 'out there somewhere'. Professor Alan Cawson calls this the belief that a "*product space*" exists in a marketplace; he goes on to say "*what its exact form will be remains a matter of considerable uncertainty*". The development and launch of products with similar functions by several different firms is an indication that there is a consensus about the existence of a particular product space.

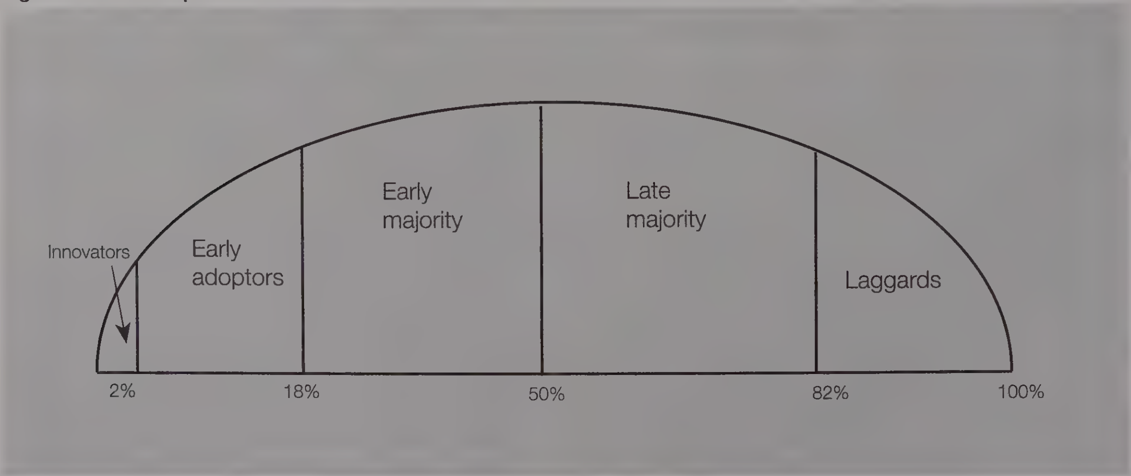
The fact that several different products with overlapping appeal try to occupy the same space in a newly emerging market means that there is a high rate of attrition and failure. This failure rate can either be interpreted as the continued short-sightedness of generations of innovators and entrepreneurs or, more interestingly, as an indication of the ultimate potential of the product space. Different products, based on different design paradigms, compete against each other to make the best fit with the marketplace. Over time, the definition of the product space, as embodied in the product itself, is tested and given coherence by consumers. Knowledge of their behaviour provides feedback and so the product is altered to create a 'tighter fit'.

The tip of the iceberg

A new technology is like an iceberg, with only 10% of its surface showing above the ocean. When it is launched, most of its potential applications and uses are hidden.

This unknown quality provides enormous scope for consumers to discover new uses for the technology. Some commentators have referred to this as the process of consumer reinvention: consumers recast the technology around a new set of uses made possible within the design paradigm, but were not known by its creators. In this respect, consumers are great sources of innovation in the early years of a product's life.

Figure 3.2 The adoption curve Innovators – the first 2%



Source: The Henley Centre

The consumers who provide the greatest feedback are known (confusingly) as the innovators: the innovators make up the first 2% of adopters. In many respects, the innovator stage is akin to a 'lab test', taking place before the mass market for a product has been created. This small, initial user-population is then added to by the more well-known segment called the Early Adopters, which represents the next 16% of users. Often, both these groups of adopters, but particularly the Innovators, are drawn from the industry or profession that is developing the new product or technology. In this way, the boundaries between the consumers and producers of a new product blur. This process was certainly true of the first users of radio, motor cars and personal computers.

As the market is extended and more people use the product, they reveal the hidden 90% of the iceberg. At this point, the innovative consumer can take on the role of entrepreneur. With a technology such as the Internet, the roles of innovator, consumer and entrepreneur often blur into one. In this way, the Internet is constantly driving user-led innovations concerning its own processes and products, but also facilitating and enabling innovation across a whole range of sectors.

The ideas behind the Internet

The vision that created the Internet began in the 1960s with the idea, radical at the time, that computers could be used to augment human thinking.

The main visionary for the Internet was JCR Licklider, a psychology professor who had, at that time, been appointed the first director of the Information Processing Techniques Office (IPTO). (The IPTO was part of the Advanced Research Projects Agency (ARPA) – the department that administered and allocated the US government's funds for computer research). Licklider believed that the forward march of human knowledge, and thus human progress, was threatened, not by a deficit of information, but by a surfeit. The problem was that, increasingly, researchers had to spend enormous amounts of time searching for and retrieving documents. Potentially even more costly was the fact that they were often ignorant of a piece of research and thus wasted time duplicating work. Licklider saw computers as time-saving tools for researchers: rather than having to spend time on low-level tasks, they could off-load them onto computers. This would enable them to spend valuable time thinking, being creative and interacting with each other.

Figure 3.3 J C R Licklider – the visionary behind the Internet

Source: 'Where Wizards Stay Up Late'

'Thinking centres' and the 'intergalactic computer network'

Licklider foresaw the creation of what he called a 'thinking centre' – a computer where knowledge is stored and accessed, essentially an electronic library. Importantly, Licklider did not envisage a single 'thinking centre', but many. A user of one of these 'thinking centres' must have access to the diverse collections of knowledge in every other 'thinking centre'. They must be connected together in a network – a network that Licklider half jokingly referred to as the 'intergalactic computer network'. In this respect, the world's knowledge would be pooled and made available to who that needed it.

This idea had already been described in 1937 by the science-fiction novelist H.G. Wells in an essay entitled *World Brain.* Wells predicted:

"The time is close at hand when any student, in any part of the world, will be able to sit with his projector in his own study at his or her own convenience to examine any book, any document, in an exact replica."

'When minds interact, new ideas emerge'

Licklider argued that communication was more than simply the sending and receiving of information. Communication was a *creative process.* In 1968, before the Internet or any other computer network had been built, Licklider and Robert Taylor, the third director of the IPTO, wrote an article that set down their ideas and predictions for computers as a communications technology. They wrote:

"We believe that communicators have to do something non-trivial with the information they send and receive. And to interact with the richness of living information – not merely in the passive way that we have become accustomed to using books and libraries, but as active participants in an ongoing process, bringing something to it through our interaction with it, and not simply receiving from it by our connection to it. We want to emphasise something beyond its one-way transfer: the increasing significance of the jointly constructive, the mutually reinforcing aspect of communications – the part that transcends 'now we both know a fact that only one of us knew before'. When minds interact, new ideas emerge."

Putting theory into practice

Licklider and Taylor developed four guiding principles for computer-mediated communication. They were:

- Communication is an interactive, creative process
- Response times need to be short to make 'conversation' free and easy
- Large networks will form out of smaller regional networks
- Communities will form out of affinity and common interests

That was the theory. In practice, at the time, computers were a scarce and expensive resource, access to which was highly controlled and limited. Scientists who wished to use a computer had to write their programs on punch cards and then take them down to the computer centre. There they handed them over to somebody to run the programs. This process was what is now called 'batch computing'. It created enormous backlogs and wasted the time of researchers who were constantly having to queue to get anything done. The vast cost of a new computer meant that institutions could not just buy another one when it was needed. Demand and supply were perpetually out of balance.

Licklider used his position at ARPA to fund projects aimed at solving this problem. His approach was not to make cheaper computers, but to enable people to share existing computer resources more efficiently. The objective was to develop a method of 'communal computing', enabling a single computer to service a group of individual users at the same time rather than individual users one after another.

The 'information utility'

In 1964, the first 'time-sharing' computer system was brought in to operation at Massachusetts Institute of Technology. The analogy that was chosen to understand this new method of distributing computing power was that of the 'information utility', akin to electricity, water or gas utilities. Rather than every user having their own 'generator', everyone would be connected to a network or grid and so draw on a single, centralised source. The concept of the information utility was behind the creation, in 1969, of CompuServe, now owned by America On-line. The idea captured the popular imagination. Martin Greenburger, a professor at the MIT management school, wrote in an *Atlantic Monthly* of 1964 that:

"Barring unforeseen obstacles, an on-line interactive computer service, provided commercially by an information utility, may be as commonplace by 2000AD as the telephone service is today."

This idea seems as contemporary today as it did 35 years ago. The vision, funded and conceived by Licklider, launched the technology that was eventually to become the Internet.

The design paradigm of the Internet

The Internet was founded on the need of the US State authorities to maintain effective command and control structures during and after a nuclear attack.

The Internet is often described as a US Defence Department computer network designed to withstand the impact of a nuclear blast. This does not mean that the computers and cables are somehow heat-toughened or that they are located in a bunker buried in an Oregon mountain range! It does mean however, that the Internet was designed to ensure it would continue to operate even if a significant part of it was destroyed. Paul Baran, an analyst at the RAND Corporation, took it upon himself to make this bomb-proof communications system and provided much of the Internet's technical design paradigm. He wrote:

"If war does not mean the end of the earth in a black-and-white manner, then it follows that we should do those things that make the shades of grey as light as possible: to plan how to minimise potential destruction and to do all those things necessary to permit survivors of the holocaust to shuck their ashes and reconstruct the economy swiftly."

In the 1960s, working separately from and unknown to ARPA, Paul Baran started thinking about the design paradigm that would fit this product space. Baran understood completely that the future of communications networks lay in digital data being passed from computer to computer. This was a crucial element in the design paradigm. He saw that it was the moment at which a new system of communications could emerge, and that it should be a radical departure from the past, exploiting all the features of emerging digital computer network technologies.

Getting rid of the centre

Baran's goal was to find a network structure that would continue to operate even after pieces of it had been destroyed. His starting point was that the existing telephone system, despite the pronouncements of AT&T, would not be a satisfactory infrastructure to provide a model for the future. The telephone system had a highly centralised structure – a blast at one or two places could completely cripple the whole network and make communication impossible. Baran's inspiration for his new design paradigm was the neural net of the human brain. He was interested in the way that the brain can function despite undergoing massive injury or trauma. The brain can do this because its parts are connected in a vast, complex network. One part of the brain can be in contact with any other part through many routes.

The idea of dividing a large, but highly vulnerable structure into different parts as a defence mechanism can be seen in both the natural and human world – for example, creating discreet compartments prevents leaks in submarines filling and sinking the whole vessel. It also works in clandestine organisations, where groups or cells of people operate completely unknown to each other – so preserving the organisation as a whole if one part of it is compromised. To build this as a communications and information system meant building a network that had no centre at all. It meant moving away from the more common models of centralised and decentralised networks, to one based on the idea of a distributed network.

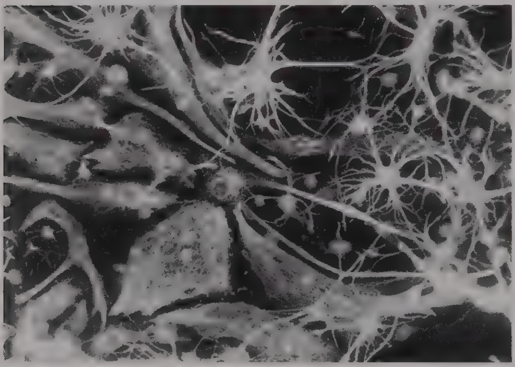
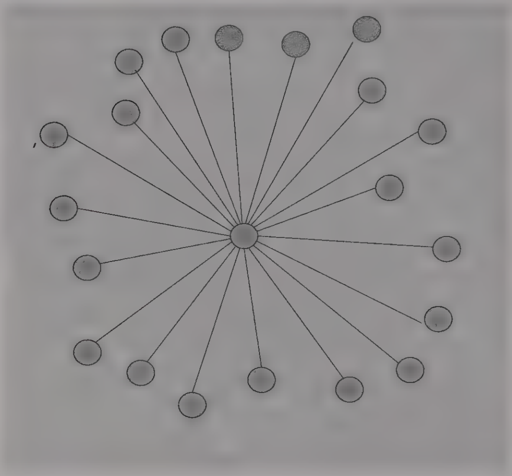


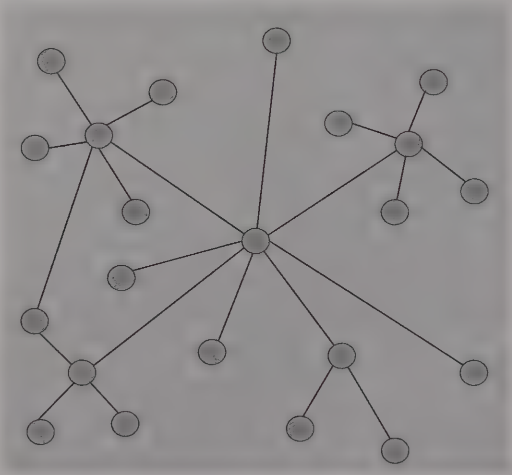
Figure 3.4a A centralised network



Source: The Henley Centre

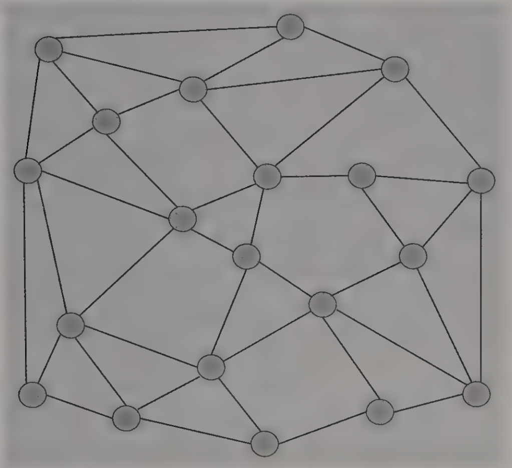
A distributed network is structured around the many different nodes in a system being connected to as many other nodes as is feasible. A distributed network hugely increases the number of routes through which it is possible to communicate. This means that if a proportion of the network is destroyed other routes are still able to pass information. Such a network architecture can, in theory, carry vast amounts of traffic as the load is spread across the entire network rather than having to pass through a single hub at the centre.

Figure 3.4b A decentralised network



Source: The Henley Centre

Figure 4.3c A distributed network



Source: The Henley Centre

Getting rid of the whole

Baran also developed a new design paradigm for how messages themselves are transported around the network. He discovered that a message could be divided into 'blocks', each containing the final destination address (later the term 'packets' would be widely adopted following similar work by a British scientist called Donald Davies). Each of the many packets that made up a single message would find their own best route around the network and so be reassembled at end of the journey. Imagine if, rather than writing a whole letter and posting it to somebody, you wrote each sentence on a separate postcard and posted it to him or her. If the letter goes missing the entire communication is lost, but if one of the postcards goes astray, the rest of the message still gets through.

Sending messages across networks in packets can be faster than sending them as a whole. Computers located at each node forward the packet along the path of least resistance – thus avoiding dead-ends and highly congested paths. It is also more cost-effective. With traditional telephony, when one person telephones another, a direct connection is made across the network – the lines that are being talked down can only be used by those two people and it becomes a dedicated analogue connection. With packet-based communications, different packets containing different messages can share the same line. This means that the capacity of each line is increased, and thus the cost of using the line is spread over many more messages.

A network of networks – not a network of computers

In 1966, Robert Taylor became the third director of IPTO at ARPA. His budget was being drained by repeated requests from universities all over the US for funds to buy computers. Taylor saw that giving in to these requests would not only be very expensive, but also result in duplication of resources.

Following Licklider's earlier ideas, Taylor proposed to build a network that connected these geographically dispersed computers. He thought that ARPA should concentrate its computer budget into a small number of universities, each one representing a particular research specialism. Researchers in that field, based anywhere in the US, would access their particular specialist computer, and so resources would be shared and money saved. He also saw that maximising the use of computer downtime would be critical. Rather than shutting down computers located on the East Coast of the USA at the end of their working day, they could be used by those on the West Coast who might be just starting there.

This was the beginning of ARPANET, which was later to become the Internet. It had two stated objectives:

- *To develop techniques and obtain experience on interconnecting computers in* *such a way that a very broad class of interactions become more possible*

- *To improve and increase computer research productivity through resource-sharing*

The ARPANET drew upon the ideas of JCR Licklider and the work of Paul Baran. What had yet to be established, however, was the ability to facilitate the first objective. Only when this was achieved could the Internet become the network of networks.

TCP/IP - opening the net

The final plank of the Internet was the means to allow computers of all kinds to connect and communication to be conducted around a single standard.

The software that was developed was named the Transmission Control Protocol/Internet Protocol or TCP/IP. What distinguishes the TCP/IP software is that its function is to co-exist with other design paradigms. It was recognised from the beginning that the world will always contain competing products or processes – each trying to become a market leader – so TCP/IP's purpose was to build bridges between these products and processes. It is neutral, transparent and open – it is designed to work with everything and not let proprietary standards prevent communication and interconnection.

It is easy to understand the genius and importance of TCP/IP technology using the analogy of water. Consumers use water for many different things; for example, taking a bath, washing up, watering the garden, making tea or cooking pasta. None of these things makes any difference to how the water is sent to the home and how it comes out of the tap. The system and manner of distribution makes not a jot of difference to the end use.

Summary - a unique technology

The design paradigm of the Internet is unique in four fundamental respects. An understanding of these characteristics is crucial to understand the future direction and potential of the Internet. The unique characteristics of the Internet are:

- **It is founded on the worst-case scenario of its own performance.** The Internet was never designed to provide the best possible lines or connections; it was designed simply to survive.

- **It can absorb other networks and, in so doing, functions more effectively.** Designing the Internet as a distributed system, fragmented and compartmentalised, gives it organic properties. This reduces the structural problems of scaling down or increasing the network considerably.

- **It is a democratically structured technology.** In their desire to prevent power, command and control from being concentrated anywhere – for that would make it a target – the designers of the Internet scattered power across the system. As such, the Internet is designed to be inclusive and equal, rather than hierarchical and divisive.

- **It encourages collaboration rather than competition.** The transparency and openness of the TCP/IP communications protocol means that the Internet is designed to connect everything to everyone. Not to be connected to the Internet is something that the owners or operators of a network have to pursue actively.

Early uses of the Internet

E-mail – the first Internet 'killer application'

Through the 1970s and 1980s, e-mail was the single most important driver of the growth and development of the Internet.

The first e-mail message was sent in 1972 and, by 1973, three quarters of all traffic over APRPANET was e-mail. Before e-mail, the focus was on communications between computers, and between computers and people. As soon as the network was in place, person-to-person communication began. Its use was infectious; once people started to communicate via e-mail, it began to snowball.

Yet, APRPANET was never intended as a messaging or mail service. Nor did any of the e-mail programmes come about because of a research grant or government project. E-mail exists because the users of the Internet decided it would be useful, they then built it and continued to improve it in a pragmatic way over the years. E-mail evolved into what it is today in a piecemeal fashion.

The early messages that people sent to each other were concerned with work- and research-related questions. At first there was a sense of 'appropriate use' – ARPANET was a government financed network and, as such, should not be used unless there was a professional reason for doing so. E-mail was, from the beginning, a method of facilitating wider working collaboration between people. Questions could be fired off to experts who would then send back replies.

There is an immediacy about e-mail that brought people closer together. The director of ARPA in the mid 1970s, Steve Lusisiak, used e-mail in order to maintain contact with geographically dispersed groups of people with whom he needed to be in regular contact. This was particularly important while Lusisiak was out of the office and travelling around the country – he could still maintain contact through the computer network.

From one-to-one to many-to-many communication

Where e-mail really came into its own was not in the area of one-to-one communication, but in terms of many-to-many communication.

This aspect of e-mail opened up forums for discussion and deliberation. It allowed people to form the communities of affinity and interest that Licklider and Taylor had predicted would emerge. The first example of such a community being formed was in 1975. An e-mail group was set up to discuss the future direction of e-mail itself.

At first, for messages to be distributed they had to be sent to a person who was chosen to administer the list, then the administrator would re-send the message individually to every member of the group. Before long, the process had been automated and the 'conversational' aspects of group e-mail were allowed to fully flourish. The existence of e-mail discussion lists perfectly facilitated the exchange of views and ideas about the technical development of the Internet as well as many other areas of scientific enquiry and research. As Licklider predicted, "*when minds interact, new ideas emerge*".

Communities of affinity and interest were confined exclusively to areas of research for only a short period. Soon, groups emerged that reflected the tastes and lifestyles of the e-mail users, not just the subjects of their doctoral theses. Two of the first non-professional groups to spring up were concerned with wine and science fiction.

Once people found that they had things in common, they proceeded to exchange opinions, news, speculation or tips with each other – where they lived or whether they had met any of the other participants in the flesh did not matter.

Much the same thing occurred with the development of a networked bulletin board system called USENET (it was the users who constructed it). Interestingly, the computer-science graduates who built the software for USENET were at universities that were not included on the ARPANET in the 1970s. They referred to it as 'the poor man's ARPANET' as it worked not as a computer network in the strict sense, but by computers dialling each other up and passing messages in a sort of relay system. The first use of USENET was as a means of discussing and developing the Unix computer operating system but it quickly became a conduit for all manner of discussion and debate. Once the system was adopted by a university that was connected to the ARPANET a bridge was made and USENET became incorporated into the wider network.

Hypertext – the next frontier

Hypertext does to content what the Internet did to networks – it disperses control and banishes hierarchy. Hypertext puts the users at the centre and enable them to explore content according to their own interests and choices.

In 1945, Vannevar Bush wrote an essay for the *Atlantic Monthly* entitled 'As we may think'. In it, he touched on many of the themes that would inspire JCR Licklider in his quest to build 'thinking centres' and an 'intergalactic computer network'. The article outlined the barrier to continued human progress caused by the expansion of knowledge, which would be so important for the work of Licklider 15 years later. The ideas that Bush articulates in his essay do not just pre-figure the work of Licklider, they lead directly to the World Wide Web, created in 1990 by Tim Berners-Lee (only nine years ago!), the Mosaic Web Browser built by Marc and Eric Molina and then the founding of Netscape by Andreessen and Molina.

Information overload circa 1945

Bush opened 'As we may think' by saying:

"There is a growing mountain of research. But there is increased evidence that we are being bogged down today as specialisation extends. The investigator is staggered by the findings of and conclusions of thousands of other workers – conclusions which he cannot find time to grasp, much less remember, as they appear. Yet specialisation becomes increasingly necessary for progress, and the effort to bridge between disciplines is correspondingly superficial."

He argued that the problem was not that knowledge was like a needle in a haystack – rare and hard to find, but that investigators were trying to find particular straws in a haystack that is growing all the time, while simultaneously trying not to lose sight of how all the straws fitted together to make the haystack: a far more difficult proposition than finding an easily identifiable needle.

Associations not indices

Bush believed that the barrier to accessing this growing stack of knowledge was that institutions had adopted what he saw as an artificial system of indexing. He argued that alphabetical or numerical filing runs counter to the way that the human mind actually works. He suggested the mind:

"Operates by association. With one item in its grasp, it snaps instantly to the next that is suggested to it

by the association of thoughts, in accordance with some intricate web of trails carried in the cells of the brain… Selection by association rather than by indexing, may yet be mechanised".

Bush proposed the possibility of an *aide-memoir,* the Memex, which would store and file information in an associative rather than a traditional fashion. One document would be tied to another, not following an alphabetical or numerical series, but because there was some logical trail to be followed in terms of the thoughts themselves. The machine was concerned with tying documents together – and so creating mental bridges between one train of thought and another. He describes the tying operation as follows:

"When the user builds a trail, he names it, inserts the name in his codebook, and taps it out on his keyboard. Before him are the two items to be joined, projected on to adjacent viewing positions… The user taps a single key and the items are permanently joined… Thereafter, at any time, when one of these items is in view, the other can instantly be recalled merely by tapping a button below the corresponding code space."

While the design paradigm that Bush outlined was clearly never going to move off the drawing board, he did articulate and bring to life a product space – the need for the storage and retrieval of information to be organised in such a way that it more closely matches the way that people think and remember. Bush was talking about making knowledge user-friendly, user-centred and more accessible. Such a system would allow time, effort and thus resources to be saved.

From Memex to Hypertext

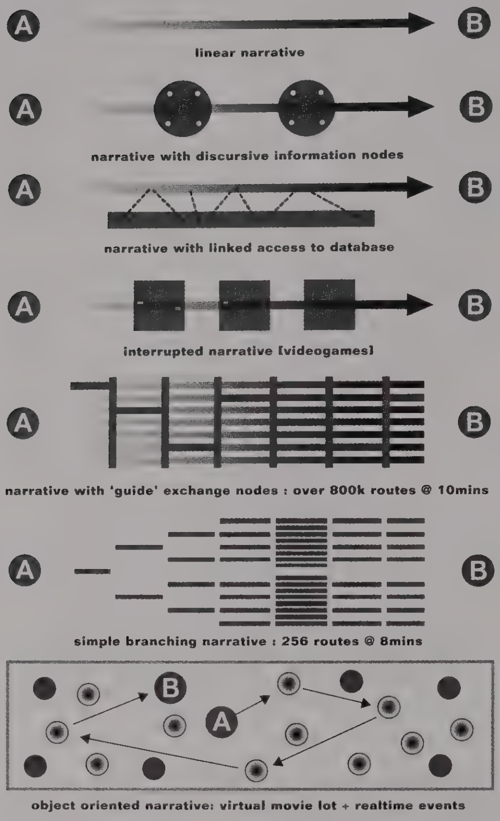
In the early 1970s Theodore Nelson, captivated by the idea of Vannevar Bush, wrote a book called *Dream Machines.* In it he suggested that Bush's ideas could be brought to life by interactive computing – the name that he gave to such a computerised system was Hypertext. He called Hypertext 'non-sequential writing', as it allowed documents to be delivered in a variable rather than a fixed form and liberated them from the structure imposed by bookbinding.

Documents could be embedded with links to other documents and within those documents would be other links, and so on and on and on. This would break down the linear nature of the documents and encourage users to find their own paths through the text. No longer would there be a single and indefinitely repeatable beginning, middle and end to a document – instead there would be an endless inter-linked web of ideas: a web that ignored the boundaries and structure of individual documents completely. Nelson tried to build his hypertext as a working computer program called Xanadu; this was a heroic but ultimately unsuccessful project.

Putting the user in control

The essence of Hypertext is choice. It gives the user a choice in pursuing what they are interested in within a document. By doing this, Hypertext upsets the locus of control – the relationship between the writer and reader is changed. Hypertext does to content what the Internet did to networks. It disperses control and banishes hierarchy – who can say what should be read and in what order? Most documents have a central subject, tangential ideas are excluded from the main body of the document, but they are noted. In hypertext, the ideas in the margins can be pursued by the user. There is no longer a centre in a hypertext document. It becomes impossible to have a table of contents. The reader or the user, and not the writer, gives coherence to the fragments of dispersed documents. Rather

Content journeys – from linear to hypertext


A
B
linear narrative
narrative with discursive information nodes
narrative with linked access to database
interrupted narrative [videogames]
narrative with 'guide' exchange nodes : over 800k routes @ 10mins
simple branching narrative : 256 routes @ 8mins
object oriented narrative: virtual movie lot + realtime events

Source: The Cyberspace Lexicon

than a single author and many readers, hypertext creates a single reader and many authors.

The World Wide Web

The World Wide Web brought the point-and-click world of the graphical user interface onto the Internet. It also brought about a new and cheap way for people to distribute content that they had produced themselves.

In 1990, Tim Berners-Lee, a computer scientist at the CERN nuclear research establishment in Switzerland, produced a system for information storage and retrieval by computer. He thought that this new system would be a better way of organising and sharing professional information. Berners-Lee called his computerised storage system the World Wide Web. It was Berners-Lee who created the web browser, the web server, the Hypertext Transfer Protocol (HTTP) and Hypertext Mark-up Language (HTML).

The World Wide Web was developed to serve the needs of a group of scientists involved in particle physics research located in universities and research institutes scattered all over the world. Gaining access to the results of experiments using the scarce and expensive resource of the particle accelerators was difficult: it occurred only through infrequent conferences, journals, books or the private social networks of friends. Berners-Lee developed the Web to aid the organisation and the circulation of knowledge. Academic papers and the results of experiments were placed on the Web; these documents contained links to the papers that they referenced and footnoted. With a click on a linked footnote, a document could be summoned up from a computer located on the other side of the world. Berners-Lee brought together hypertext and the computer network.

It was not for long that the Web remained the preserve of theoretical physics papers. In a very short space of time people were creating a diverse array of content and publishing it on the Web. Again, the users of the technology embraced it and took it in a new direction. While Berners-Lee mourned the loss of the 'serious' web, Andreessen and Molina – the programmers who created the Mosaic Web Browser and then founded Netscape – saw this explosion of personal publishing as 'cool'. The idea that the Web provides a space that allows people to do 'cool' things with computers became central to the development of their browser. To paraphrase Licklider and Taylor: 'when minds interact, *cool* ideas emerge'.

How should we understand the Internet today?

These ideas behind the Internet are as applicable to consumers today as they were to the arcane world of the particle physics researcher in the 1960s.

Just as the 1950s and 1960s saw the specialisation of academic disciplines, in marketing terms the 1970s, 1980s and 1990s have seen the increasing segmentation of markets and differentiation of products and services. As a result, it has become almost impossible for consumers to gather all the available information to understand the complete range of products on offer and to fully understand the implications of choosing a particular product.

The uses that Licklider foresaw for the Internet are fundamentally the same as the ways businesses and consumers are using it today. Thus, just as saving time was attractive to busy academics, so it is to today's time-squeezed consumer. Just as the US government sought a way to save resources through more efficient use of computers, so businesses today are embracing the Internet with the hope of reducing their marketing and distribution costs. Similarly, the ability to share ideas and communicate with like-minded people is the same force behind the development of communities of interest on the Internet today as it was for the early users of ARPANET.

The visionaries of the Internet moved beyond the notion of simply retrieving and swapping information and messages, however. They saw the Internet as an environment in which 'minds interact' and 'new things emerge'. All too frequently the Internet is described as a publishing or broadcast medium that 'also delivers interactivity'. Only confusion can result from such thinking – it fundamentally misses the point about the Internet. In the next section, we provide a practical framework with which to understand the opportunities created by the Internet and to develop strategies to exploit its full potential.

Metaphors as a way of thinking

Understanding the interactive, creative and evolving nature of the Internet is fundamental to understanding how it will develop in the future.

Metaphors make powerful frameworks in which to develop a set of organising principles. They provide an approach and mindset from which strategy can be developed and then actions flow. JCR Licklider used metaphors to capture the meaning and character of the Internet. He talked of 'thinking centres' akin to libraries, and the creation of 'information utilities'. Similarly, Paul Baran used the analogy of the organisation and the neural net of the human brain. These ideas create a deeper sense of understanding of the Internet.

Since the 1960s, the Internet and the World Wide Web (the web is itself a powerful image) have spawned numerous metaphors: a highway along which people travel; a reservoir or pool of content; a frontier on which people explore or hunt; a shopping mall or bazaar; a town hall or debating chamber; common land or a gold mine; a whole world or a village; a library or a pub – it has home pages, spiders, engines, surfing, portals, gateways, sites, domains, addresses and visitors.

The Internet is not the first technology to be explained using metaphors. The increased public awareness of television in the 1950s created a host of televisual metaphors. For example, it was called a 'window on the world' and a 'magic carpet ride'. Both these metaphors described TV's ability to educate and enlighten by bringing a seemingly endless amount of new knowledge about the world into the home. By the late 1960s and 1970s television was being described as the 'drug of the nation' – a new metaphor to describe a new phase in TV's development and use.

The importance of the user perspective

To understand the Internet, it is important to start from the perspective of the *user.*

Too many of the metaphors used to describe the Internet either erase the presence of the user or give them a one-dimensional role. Incorporating the user perspective requires that we step away from the world of information technology and the media to find another bundle of concepts.

The Internet is frequently referred to as the 'information super highway'. If the Internet is a highway, then there are also cars and trucks – traffic, drivers, passengers, on- and off-ramps, tollbooths, road taxes, petrol, engines, poster sites, etc. All of these images have been used as subsets of the information highway metaphor – not only to understand the Internet, but also to sketch out possible developments and futures. Thus, just as the US interstate highway system connected the country together, unified markets and cultures gave individuals access to a wider choice of experiences and improved their economic mobility, so too, it is argued, will the Internet.

Although the highway metaphor is useful, the user experience is not dealt with adequately. Thinking of a highway paints a picture of Internet usage as a continuous, steady flow (albeit with stops and starts in traffic and long waits in jams!). In contrast, the Hypertext environment on the World Wide Web, with its jumps, clicking backward and forward, and links that send the surfer from one page to another, is full of choices, decisions, turnings and routes. The question that this begs is 'where do people go to on the information superhighway?'

The city – a complete metaphor for the Internet

Using the city as a metaphor to understand the Internet has a many advantages over other widely used Internet metaphors, such as the information super highway.

The inhabitants

To grasp the nature of the Internet, it is crucial to start from the fact that it is *people* who use it and make the Internet what it is. A city has a population that lives, works, learns and plays there. With a population of over 100 million people, the Internet is bigger than Beijing, Mexico City, Delhi, London and New York combined. People who inhabit cities collectively form neighbourhoods and communities; these are places of interaction and social relationships. The Internet has, from its first moments, allowed people to organise themselves into communities and groups – and so set up virtual neighbourhoods.

The built environment

To understand that the Internet has inhabitants is to see it as a place. It may seem obvious to say that the Internet is a built environment, but that is what makes it like a city. The Internet does not just allow users to move up and down, and left to right, as if they were using a book, it also creates surface and depth. The Internet has three dimensions without the aid of virtual reality or complex graphics systems. Like a city, the Internet has architecture – not technical network architecture that users remain oblivious to – but a built architecture that provides a pattern and a structure to the user's experience of it. The built environment of the city contains both public and private spaces: places that are open and accessible to all; those that require a payment for admission; places where access depends on a subscription and, finally, private places where access depends on invitation or membership. The Internet is also divided up into this mixed economy of space.

Getting around

People have to navigate through any built environment. They make visits, they travel, they browse. There is a flow of traffic in cities. Some people may travel in a focused and purposeful way, others are just exploring or finding out what lies around the corner. A city has many paths to go down and many ways to get to the same place. This allows people to make their own way, but also to make their own wrong turns and so get lost, therefore having to retrace their steps. Similarly, the journeys that Internet users make are not only along highways, they are down roads, streets, avenues, alleys and into dead ends.

When a person is looking for somewhere specific in a city, he needs directions and guidance, somebody or something to tell them where to go and how to get there. Similarly, navigation is crucial to the user experience of the Internet. Its importance is underscored by the issue of latency (the time it takes for a page to download). Nobody likes it if his or her journey feels like walking down Oxford Street on a Saturday afternoon just before Christmas!

Exchanging things

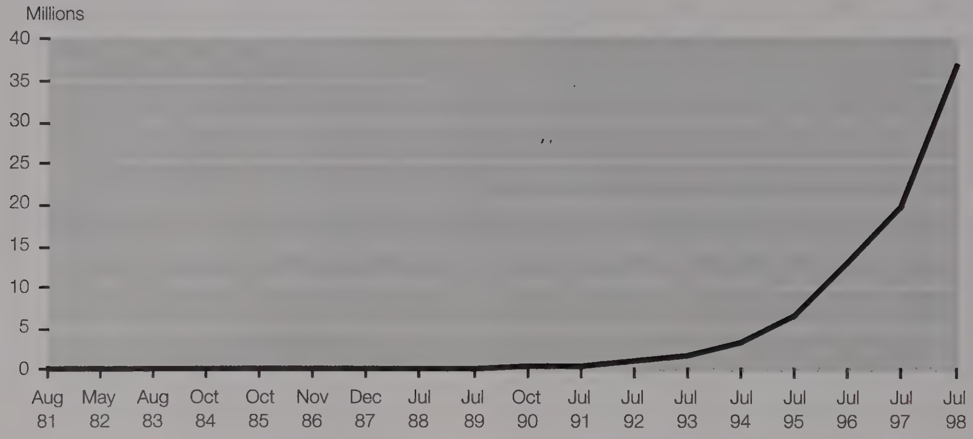
The history of the city is indivisible from the history of exchange. Goods, services, jokes, gossip, secrets, opinions, words, ideas, even money get exchanged at all levels in cities. Hubs of exchange are created – markets, the high street, shopping centres and so on. The Internet, like the city, is a magnet for people who have things they want to exchange. Anything and everything it seems is available for exchange on the Internet, be it political, commercial, social, cultural, legal, or illegal. Where one sort of exchange is taking place, soon many others can be found.

A state of flux

Both a city and the Internet are forever under construction. There are places older than others that seem established and entrenched, but nothing in a city remains static for very long. Cities demand maintenance, renewal and repair, just as the Internet does. The Internet has its vacant lots and empty, derelict areas. The error message of '404 document not found', regularly greets Internet users. Internet sites and pages are continually being constructed and demolished – the average web page has a life expectancy of 75 days and this is falling.

Another way that cities change is through growth. The great cities of the present all massively increased their populations, and with every new wave of migrants so the fabric and culture of the city was changed. The Internet is stretching and growing, not just in terms of its population, but also in terms of

Figure 3.5 Growth in Internet hosts 1981-1998



Source: 'Network Wizards'

the pages, sites and domains that make up its fabric.

- In January 1997, there were 70 million web pages and by October 1998 there were 150 million pages.

- It has been estimated that the Web is growing at a rate of 600 gigabytes a month, which is equivalent to 600,000 books or the contents of 300 top-of-the-range PC hard-drives.

- USENET is growing at a more modest rate of 16 gigabytes a month or the equivalent of 16,000 books.

- Between 1998 and 1999, the size of the Web will increase from five terabytes of information to 11 terabytes.

Something for everybody

When cities grow, they create economies of scale and build critical mass for all sorts of markets, lifestyles, interests and subcultures. During the 19th century, when London was drawing in people from rural England, the migrants from village life found themselves in a city where the interests and pursuits that seemed marginal and uncommon in the countryside were catered for and promoted. As two commentators on popular culture in the Victorian age have noted:

> *"Individual freedom, the ubiquity of money wages and a commercial environment that catered for choice made possible a wide variety of lifestyles... But especially in the cities, there were sufficient space and variety for the exercise of personal choice. Men could band together with others of a similar inclination into 'taste publics' and publicans and other entrepreneurs could satisfy those tastes."*
> **The Civilisation of the Crowd, JM Goldby & AW Purdue**

The Internet, with its hundred of millions of web sites, hundreds of thousands of e-mail discussion lists and tens of thousands of USENET forums, caters for all aspects of human life. If it is not being discussed on the Internet, then it is probably not done at all. This diversity challenges the idea that the Internet leads to the formation of a global village. The image of a village with its narrow, sleepy and staid atmosphere does not capture the heterogeneity and diversity of the Internet. There is an important, but subtle difference, between the 'way of life' encapsulated in the image of the village and the many 'ways of lives' in a city. The population 'density' on the Internet creates a culture that is structured around *difference* and not similarity.

The image of the city

In his ground-breaking book, *The Image of the City*, Kevin Lynch asked the inhabitants of cities to describe where they lived, how they felt the cities were structured and, most importantly, how they used their city. Lynch found that the image that people have of their city could be classified into five basic elements:

- *Paths:* the routes that people take to get around the city
- *Edges:* the boundaries between different areas of the city
- *Nodes*: key junctions and points of entry and exit
- *Districts*: areas and places that are have a clearly recognisable theme
- *Landmarks:* points of reference used as clues for getting around and identifying an area

These five elements of the city provide tangible and practical insight into the Internet from a user's perspective. They provide a means to understand how the various aspects of the Internet fit together to create a whole, and suggest key points of departure for companies developing strategies to use the Internet as a marketing and communication tool.

Understanding and exploiting paths

For a web site developer, it is as important to think about the way that pages are linked together as it is to think about what is on the pages themselves. Just as M&S has a shop on virtually every high street in the UK, web site owners need to identify important Internet paths, create a presence on them and provide clear signposts for users.

People observe a city while moving around and through it. These paths provide the basis from which everything else is surveyed. Paths acquire their identities by association with a special use or activity. For example, Oxford Street in London is associated with shopping and Threadneedle Street with the Stock Exchange. When paths lack a clear identity, the image of the city as a whole becomes confused.

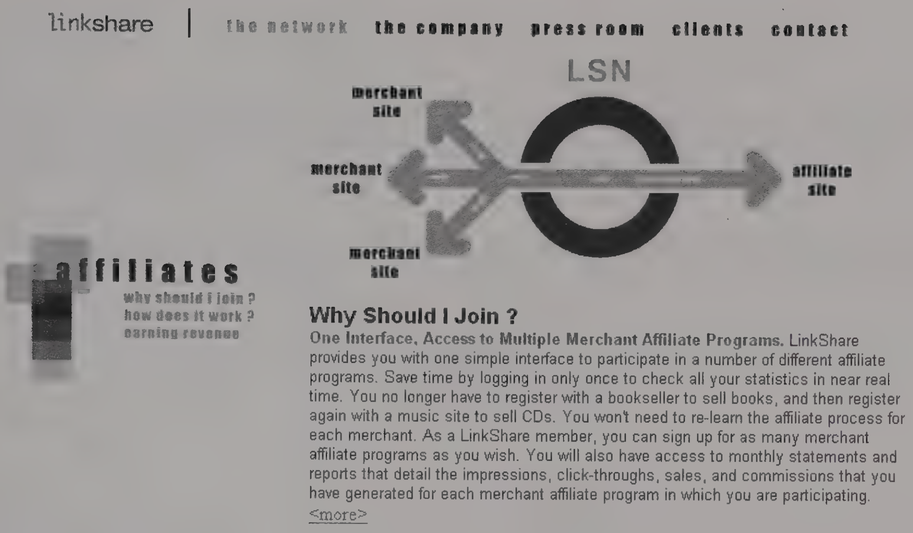
The Internet is made up of a myriad of paths and channels that tie together documents around themes. The user prefers clear associations and trails across documents and sites. This does not just apply to the way that users navigate around a site, but where they are coming in from and where they are going. All too often, the signposting on the Internet is poor. Users have little or no warning about where they are going to end up when they click on a link. Nor do they have much idea where they have come from at the end of a long journey. In a city, we are given maps, and road and street names with which to identify paths and develop routes. To make it easier, there is a hierarchy to the paths – main streets and side streets, A roads and B roads, and so on. This structure and coherence is often entirely absent on the Internet.

Companies must develop an understanding of the paths that people will make to their site. When consumers move from shop to shop along the high street, a retailer rarely knows where they have come from and where they are going. On the Internet, it is possible to gather this information. This opens up the possibly of developing specific points of entry or exit for people. Furthermore, the emphasis on the arrival and departure of users allows the synergies between different sites to be explored and partnerships, alliances and corporate associations to be formed.

The use of 'affiliate networks' on the Internet is already common. One of the most notable examples is the Amazon.com Associates Program, which recently signed up its 100,000th affiliated web site. Each affiliate earns commissions of up to 15% on sales of books and audio CDs – just for enticing on-line shoppers to click over to Amazon.com's on-line store and buy something. The main goal for affiliate programs is to lure first-time cybershoppers – consumers who might not otherwise seek or find their way to a retail site.

For retailers, there are no initial costs to setting up an affiliate network, save for any phone calls and employee hours required to recruit a base of partners. For the thousands of affiliates – whether commercial sites or amateur – there seems to be nothing to lose. As there are no joining fees, the only cost is the effort to maintain banner ads and product information on their own sites. Jupiter Communications predicts that affiliate programs will directly account for 11% of the consumer transactions over the Web in 1998 and that the figure will grow to 24% of sales by 2002.

Identifying suitable affiliates is made easier by companies such as LinkShare.com and Referit.com, which create on-line directories of affiliate programs. (They make their money from the affiliate networks and software providers that sponsor the site.) The directories group potential affiliates into categories based on themes such as food and wine, gambling, health and fitness, real estate, music and travel etc. For the retailer, access to multiple affiliate programs saves on administration and the up-front investment in the time required to identify the appropriate links.



Why Should I Join ?

One Interface, Access to Multiple Merchant Affiliate Programs. LinkShare provides you with one simple interface to participate in a number of different affiliate programs. Save time by logging in only once to check all your statistics in near real time. You no longer have to register with a bookseller to sell books, and then register again with a music site to sell CDs. You won't need to re-learn the affiliate process for each merchant. As a LinkShare member, you can sign up for as many merchant affiliate programs as you wish. You will also have access to monthly statements and reports that detail the impressions, click-throughs, sales, and commissions that you have generated for each merchant affiliate program in which you are participating. <more>

The importance of edges

The questions that edges raise in the Internet environment are: Where are the edges to your web site? Do users see the same edges as you do?

An edge is a border that demarcates one area of a city from another. An edge might be a wall, a railway line, or a river - often edges are penetrable through a gateway or bridge. For the inhabitants of a city, edges provide an important framework by which they can understand the features of the city and define specific areas.

The Internet is full of edges. As a user passes from the Web to e-mail to USENET, so they pass over a bridge or through a gateway, they move from one region to another. The ability to e-mail web pages or place a web link in a USENET posting or, more recently, the ability to place a web link in a Microsoft Word document means that new gateways and bridges are opening between previously separate spheres. Web browsers are able to access all these areas, again making the edges more permeable, but there are still edges. On the Web itself, the use of frames and the launching of new browser windows can maintain a strong edge to a site and allow the user journey to continue.

When America On-line first offered its subscribers Internet access, many users had no idea where AOL finished and the Internet started. There were no clear edges between content available on AOL and the Internet. In fact, in the early days, new AOL subscribers thought they were on the Internet, even when they were accessing AOL content. Since then, AOL has made an enormous effort to create more of a distinct edge between the Internet and its own content.

The importance of clearly defined edges is underscored by the experience of Microsoft and Ticketmaster. Ticketmaster was paying Microsoft to place banner ads on its Sidewalk sites. (Sidewalk provides listing and other local content for US cities.) At the same time, Microsoft built links from its listings pages directly into the ticket-ordering pages within Ticketmaster's site. Consumers could bypass Ticketmaster's banner-ad on the Sidewalk site, thus avoiding its homepage and subsequent pages advertising different events. Ticketmaster was unhappy with this situation. It wanted to control the experience of the user upon entering its site and is suing

Microsoft for hotlinking to its site without its permission.

Nodes – putting portals into perspective

As the nodes of the Internet, portals are an important source of visitors. However, while portals are excellent for gaining *new* visitors, they are rarely in the picture when it comes to *repeat* visits. Companies need to develop other ways of encouraging visitors to come back to their site.

In cities, nodes are the junctions where breaks in journeys occur – a train, or bus station for example. Nodes perform two functions: first, they mark the point of entry – people feel that they have arrived in a city or area when they reach the node; secondly, people have heightened attention at nodes and perceive other nearby elements with far greater clarity. This is because nodes, as junctions, are the places where decisions about the direction of the journey are made.

As well as acting as a junction, nodes can be created by the concentration of a particular activity into a single place. Concentrations of this sort can become the epitome or symbol of a district. An example would be Parliament Square as the centre of UK government or Wall Street as the centre of the New York financial district. If a node is both a concentration and a junction, it can become an important centre of gravity in a city.

On the Internet, nodes have been called 'portals'. There are ten portal sites in total: Altavista, AOL, Excite, Hotbot, Infoseek, Lycos, Netscape Netcentre, Microsoft, SNAP! and Yahoo!. These sites are the places that people go to on the Internet to find out whether whatever they are looking for exists and where it is located (portals were originally known as the Internet 'search engines').

Today, portals have massive reach – 80% of Internet users will pass through one of the portal sites in the course of a week. Their strength lies not in any original content, but in their ability to act as a point of departure and entry into the Internet and between sites. They act as funnels, collecting people together in order to send them off on their way.

Although massive numbers of people pass through Internet portal sites, they are not there for very long. In addition, while portals command huge reach, they have a declining share of Internet visits. In an effort to stem the tide, portals are racing against each other to build partnerships with transaction and content sites. These partnerships are important to the portals, as they add value to their users, and are valuable to the partners as they drive traffic to their sites. (It is not uncommon for over 30% of the traffic to a partner's site to come from a portal.)

In the case of content providers, while the portal may seem to provide the value in the partnership, ie, potential customers, it is common for them to share ad monies earned with the content provider (over 50% may go to the content provider). Rarely are portals paid by content providers for access to their huge reach. When it does happen, it is usually by new ventures anxious to drive traffic to their site.

While portals may be an excellent source for gaining *new* visitors to a site, they are rarely in the picture when it comes to *repeat* visits. The analogy of the city is useful to understand why this is so. In a city, most journeys do not go via a single or limited number of central hubs. Rather than go out of their way, people will take the quickest and most sensible route from A to B, particularly if they are familiar with the city and its many paths. It is no

Figure 3.6 Key facts about portals

Focus	Deals	Monthly traffic (unique visitors)*	1997 Revenues
	AltaVista		
Search with translation features; new content "zones"	New parent Compaq, will promote site with computer sales	**altavista.com**: 6.6 million	$20 million
	America Online		
World's biggest online service; porting services to Web	Mirabilis (chat), Compuserve, Excite (search), Netscape (distributes chat software)	**aol.com**: 22.9 million	$2.0 billion (mostly from online service)
	Excite		
Personalized content pages supported by Excite, Webcrawler search	Netscape (licensed search engine, ad sharing), Classifieds2000 (want ads), Netbot Jango (shopbot)	**excite.com**: 15.8 million **webcrawler.com**: 5.9 million	$50.1 million
	HotBot (Wired Digital)		
Top-rated search site; recently added shopping mini-site	Inktomi (search), Junglee (shopbot)	**hotbot.com**: 4.1 million	(privately held, not available)
	Infoseek		
Search with content channels; soon to integrate Disney, ABC, ESPN content	Disney recently purchased 43 percent stake	**Infoseek.com**: 12.7 million	$34.7 million
	Lycos		
Search, directory features mixed with Tripod community pages	Tripod (community pages), Wisewire (Web directory builder)	**lycos.com**: 10.0 million **tripod.com**: 6.6 million	$35.6 million
	Netscape Netcenter		
Leveraging browser default start page into portal site	AOL (chat), Excite (search), ABC (news)	**netscape.com**: 18.9 million	$533.9 million for entire company
	Microsoft Start		
Consolidating Microsoft home page and MSN to create brand-name portal	Hotmail (free email)	**microsoft.com**: 17.4 million **MSN**: 9.9 million	$11.36 billion, mostly from software
	Snap (Cnet, NBC)		
Start page for ISPs, Web directory	NBC recently purchased 19% stake; will operate site jointly	**snap.com**: 2.5 million	Cnet total: $33.6 million
	Yahoo		
Most popular Net directory; personalisation, free e-mail, chat, news services	Viaweb (e-commerce site developer), Inktomi (search), Compaq (PC start page)	**yahoo.com**: 30.6 million	$67.4 million

*Traffic statistics are for month of May, as reported by Relevant Knowledge
Figures differ widely from some companies' self-reported traffic statistics

Source: CMP net

different on the Internet – users have means other than portals by which they can return to a site. This observation reveals a weakness in the concept of portals, and is the reason why The Henley Centre is less enthusiastic about their prospects than many Internet commentators.

Currently the Internet is in its development phase – our Media Futures 1999 data shows that a quarter of the population have been users for less than four months. This figure is down on 1997, when approximately 40% of Internet users were novices. As the Internet matures, the focus will shift from customer acquisition to customer retention. This will gradually reduce the importance of portals. While we do not predict that they will disappear completely – train stations will always have a use – they will cease to be the centre of Internet activity. Companies will have to develop new ways to encourage visitors to their sites. Again the analogy of the city – with its districts and landmarks – provides useful pointers for the future.

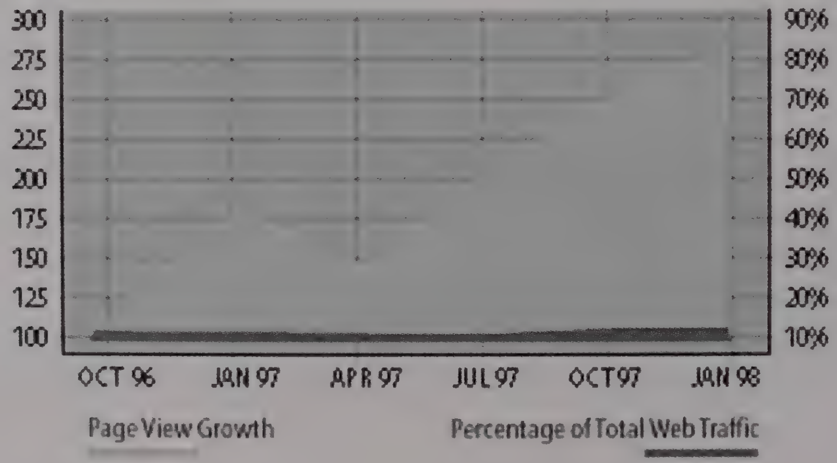
A bright future for districts

Districts are a more compelling vision for the future of the Internet than portals – they are somewhere to go, not just somewhere to pass through. Identifying and creating districts where people will come to communicate, gather information and transact will be the next phase of Internet development.

A district is an area of a city that the inhabitants recognise as having a generalised theme. This theme could be, for example, an ethnic community – 'Chinatown'; a generalised business district – 'downtown'; a clustering of a particular sector – 'the City'; or a broad notion of a place – 'Pimlico' or 'Camden Town', for instance. The vast majority of people understand the city in which they live by these demarcations. It is in *districts,* rather than nodes, where the real action is. Districts are the places that people really do live, work, learn, play and spend. They are the places that create communities and that people grow up around and in.

The notion that a person can be mentally 'inside' a district is directly comparable to the

Portal traffic share remains steady



Source: Media Matrix

experience of an Internet user when he is on the Web. The Internet user feels that he is 'inside' a collection of web pages bound together through branding and design, or through content and links. What is important is that, to the user, a loose collection of web pages becomes a 'district'. AOL, in its effort to create an 'edge' between its on-line services and the Internet, used branding and design to create this kind of differentiation for itself.

On the Internet, the development of web districts relies on the connections and associations that can be made between sites and pages. This has been called content aggregation – the pooling together of content around a similar theme onto a single site. But the idea of a web district has greater scope than aggregation. From an Internet-user's perspective, the identity of a district can reach out beyond a single site. Districts can be built from a diversity of sites linking together and developing partnerships and alliances. This happens already on the Internet, but in an informal way, as companies create links between their own sites and others related to them.

The idea of a limited number of themed districts on the Web is being developed through an Internet business called Web Rings (www.webrings.com). Web Rings builds strong links between sites of a similar theme in order to create a greater flow of people staying within a district. It explicitly recognises that the user will not stay in one place, but will travel around. Therefore, it creates specialised districts to cater for a different interests and tastes. A similar strategy is employed by the virtual community sites GeoCities and Tripod (www.geocities.com and www.tripod.com).

The Internet portals have already tied-up their partnership deals, therefore *new* opportunities to attract and retain Internet customers need to be found. The Henley Centre believes that the future lies in creating districts – themed destinations for communicating, gathering information and transacting. As yet, districts are in the early stages of development. This presents a tremendous opportunity for companies seeking to be at the forefront of the Internet. The challenge is to identify the most lucrative themes around which to develop districts, then to proactively set about building them through original content creation, alliances and partnerships, and successfully employ tactics to attract and retain potential users.

The significance of landmarks

Getting Internet users to return to a site depends on it becoming one of their landmarks. Successful Internet companies will be those that develop a strategy to position their site as a landmark in a thematic district of content.

Landmarks are points of reference – for example, a building, sign, shop or mountain – that are used as clues of identity by the inhabitants of a city. Landmarks identify particular districts; they become the features that symbolise a particular place. As an inhabitant's familiarity with a city increases, he tends to rely increasingly on landmarks for navigation.

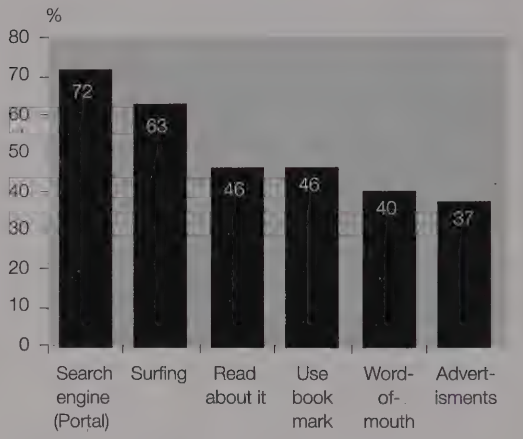
In marketing speak, landmarks are brands. As yet, branding is relatively unsophisticated on the Internet. Some sites have developed brand status as a function of their success, for example, www.yahoo.com and www.amazon.com. These are still the exception. There are millions of Internet addresses and domain names, however, and few of these can truly be called landmarks. Even companies with very strong brands in the off-line world can be difficult to find on the Internet due the obscurity of their addresses. Although their brands should be familiar and powerful landmarks for Internet users, there is no easy translation between branding off-line and branding on-line.

There is an important difference between wanting to find Disney on-line and actually being able to find its site. An address should be easy to remember and provide a clue to the user about the nature and character of the web page or site. Unfortunately, few addresses successfully achieve this aim today. Some of the more successful are www.scoot.co.uk – the on-line directory services and www.autobytel.co.uk – an on-line car dealer.

An indication that a site is achieving landmark status is that it becomes one of the bookmarks that Internet users create on their web browsers. Bookmarked sites are those that the user has specifically chosen from all those they have visited as the ones of particular interest or importance. They have been singled out by the user as points of reference. It is also the case that, as a user's experience of the Internet increases and he starts to get a sense of 'place', so he turns more to bookmarks as an aid to navigation. Thus, whereas over 80% of *first* visits to web sites are via search engines or links from other sites, 40% of *repeat* visits come from bookmarks, 30% from links from other sites and only 13% from search engines.

Figure 3.7 shows that much of the traffic to web sites comes from Internet users themselves recommending sites or from seeing adverts or editorial mentions in the wider media. Thus, becoming a landmark site will depend on developing word-of-mouth referrals and off-line awareness in addition to building presence on-line.

Figure 3.7 How do Internet users find a site?



Source: BMRB, Internet Monitor

3.2 Who is using the Internet today and who will be using it tomorrow?

Introduction

The growth of the Internet is currently rapid, with the population increasing by 20% every quarter. As the Internet population grows, so the characteristics of the users change and develop. What might be true of the Internet population today might not be as true tomorrow. It is crucial, therefore, to understand not only the user of today, but also the user of tomorrow.

For *Media Futures 1999*, we have developed a predictive consumer segmentation to understand current and future adoption of interactive media in general and the Internet in particular. The segmentation divides the UK adult population into five groups. Two of the segments are made up of current users of the Internet. The other three consist of people who have not yet used it, but possess characteristics that mean they are more or less likely to become users in the future.

The segmentation is based on the stated confidence that consumers have in using digital interactive media such as PCs and video games. Past Henley Centre research has shown confidence to be a very strong predictor of future adoption of new media technologies as a feeling of confidence, born out of experience, is easily transferable across different media types. If consumers profess a confidence and experience of PCs or video game consoles, then they are also likely to feel happy about using the Internet.

The five consumer segments

The @home group
The @home group accounts for 7% of the UK population. It includes active users of the Internet in their homes and, for some, also from workplaces, cybercafes, schools or colleges.

The @ll group
The @ll group represents 14% of the population. This group currently uses the Internet, but does so exclusively outside the home. The @ll group is very likely to become home Internet users in the future.

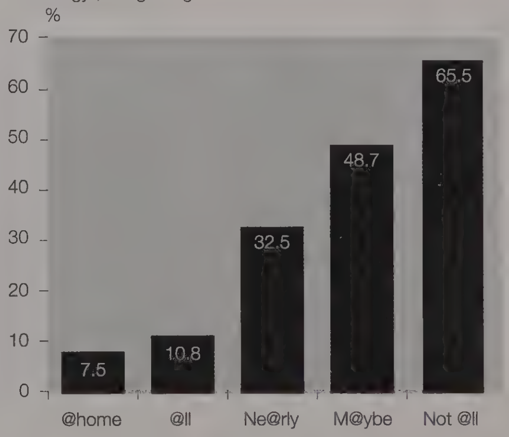
The Ne@rly group
The Ne@rly group is one of the largest segments – representing some 30% of the population. Members possess strong potential adoption characteristics, and are currently using PCs and video games. However, they have yet to use the Internet. This group will make up the bulk of new Internet users over the next five years.

The M@ybe group
The M@ybes represent 19% of the population. They have less confidence in using interactive media, which is underscored by their lack of experience of interactive media. The M@ybes are not likely to adopt the Internet at home in the next five years, but will increasingly gain access to the Internet outside the home.

The Not @lls group
The Not @lls group represents the remaining 30% of the population. These people have none of the characteristics of Internet adopters. It is highly unlikely that they will adopt the Internet in the foreseeable future.

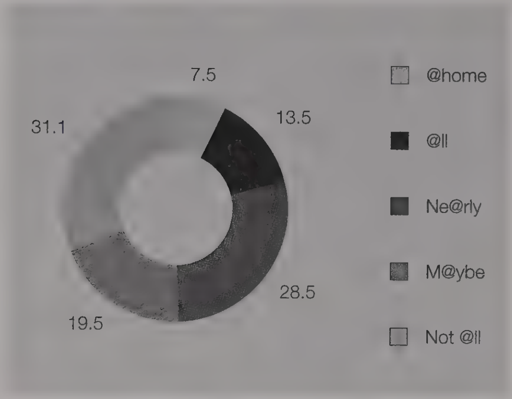
The Internet will never be the most important thing in a person's life. For this reason, we have sought to understand all the other things that shape the lives of current and potential users. In this section we examine each of the segments, not just in terms of their demographics, but also their attitudes and lifestyles. This analysis provides rich insight into the needs and behaviours of the Internet user population today and in years to come.

Figure 3.8 Attitudes to technology clearly differentiate consumers "I don't understand new technology", % agreeing



Source: The Henley Centre, Media Futures 1999

Figure 3.9 The size of the interactive consumer segments



Source: The Henley Centre, Media Futures 1999

Understanding the segments – demographics

There are two striking factors that affect whether someone has used or is likely to use the Internet.

Factor 1: men dominate Internet usage, but women are catching up

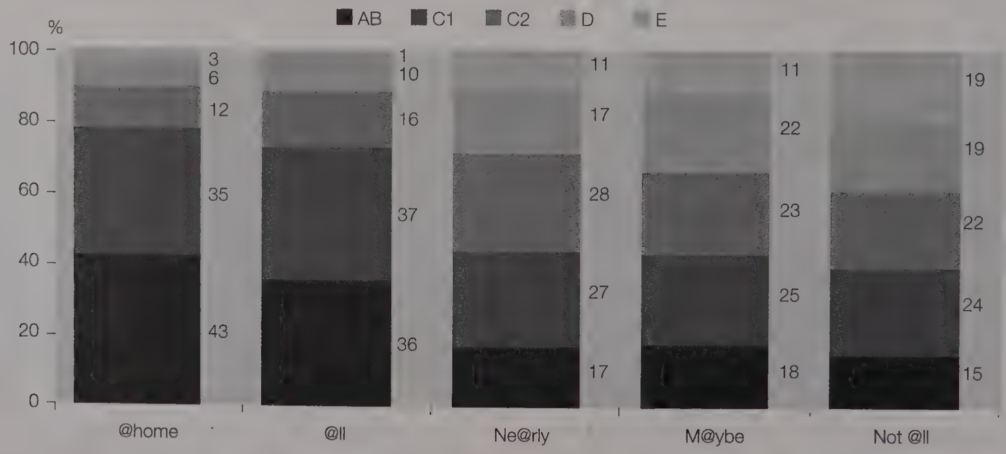
It is not much of a surprise that a large proportion (33%) of people who have the Internet @home are men. However, women are catching up in their exposure to the Internet, as 43% of the people who have used the Internet @ll are women. Interestingly, among the Ne@rly group, the next to adopt the Internet, there is an equal split between the sexes.

Factor 2: further education and employment are critical

The second revealing factor in Internet use is education. We have found that continuing into further education makes a huge difference both to whether you have used the Internet @ll and to whether you have access to it @home. 80% of people who have the Internet @home stayed on in education over the age of 18. This contrasts starkly with people in the Not @ll group, 80% of whom left school below the age of 16.

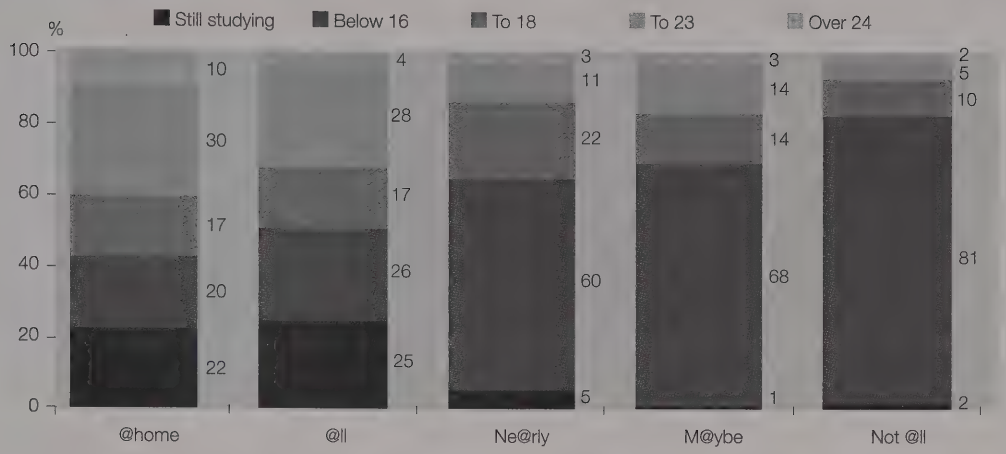
Employment also makes a difference to Internet use, with four in five people who fall into the Not@ll group not currently working. By contrast, over half of @home users work full time and 70% of all Internet users come from the ABC1 social groups. It is no surprise then to learn that over half the people who have the Internet @home and over 40% of @lls are in the £25k+ income bracket.

Figure 3.10 Class, interactivity and the Internet The class mix of each interactive consumer segment



Source: The Henley Centre, Media Futures 1999

Figure 3.11 Education – a key predictor of Internet usage Terminal education date



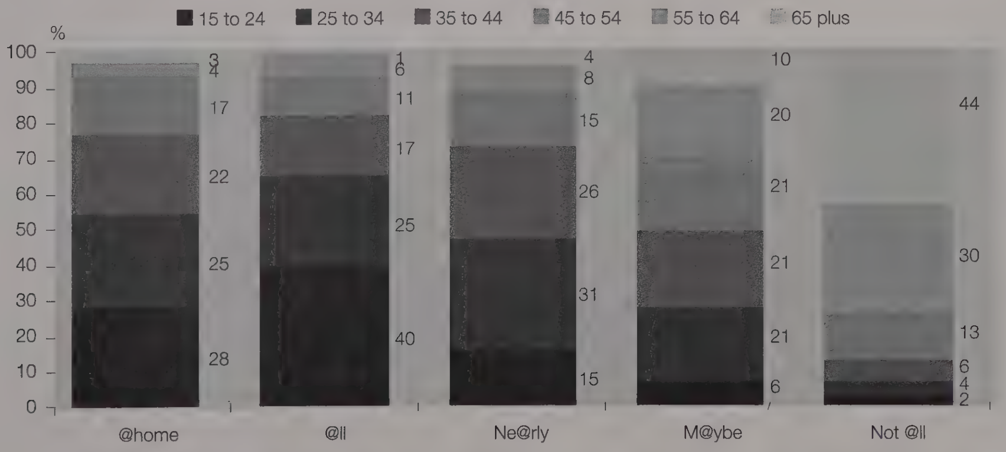
Source: The Henley Centre, Media Futures 1999

Factor 3: Age impacts Internet use at the extremes

Age is not an outstanding determinant of Internet use, except for the 15-24 and 55+ age brackets. Almost 40% of @ll users fall into the 15-24 age group, compared with just under 30% of @home users. People over the age of 55 are much less likely to have contact with the Internet. Although there is a small group of @home users who are in this age bracket, it is strongly contrasted by almost three quarters of Not@lls being over 55.

This demographic segmentation is useful to bear in mind when examining the attitudes, consumption and leisure behaviour of the five groups.

Figure 3.12 Age is an important driver of Internet usage, but not that important



Source: The Henley Centre, Media Futures 1999

Understanding the segments – attitudes, consumption and leisure

The @home users

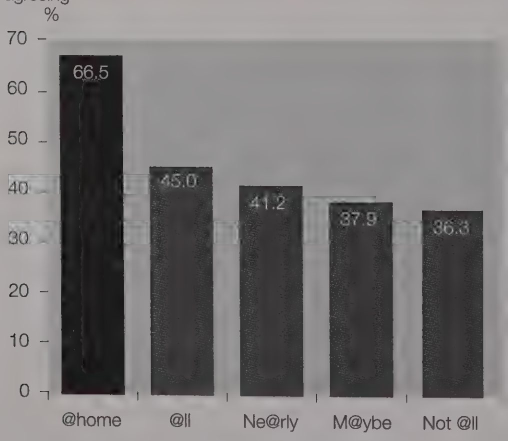
Summary

The @homes are a well-educated group who are confident, curious and engaged with the world. Those in this time-pressured group see their jobs as careers and feel close to their colleagues. They enjoy holidays abroad and will look for news of the world from every source. They are very active in their leisure pursuits both outside and inside the home. They actively interact with the world around them, communicate regularly by phone and are responsive to offers of more information about products and services.

Time and work

The @home users' attitude to time and money contrasts heavily to that of the Not @lls. @home users are far more likely to say that they are willing to spend money to save time, feeling there is not enough time to get things done. For the @home users, work is a career and they relate to people who do a similar job to them. It will be no surprise that @home users work from home, and as many as 15% of them work at home all the time (twice the national average).

Figure 3.13 @home users willing to trade off time against money "I am willing to spend money to save time", % agreeing



Source: The Henley Centre, Media Futures 1999

Leisure pursuits

The @home user has a sophisticated and engaged lifestyle encompassing a broad range of leisure activities. He or she wants an authentic entertainment experience and prefers to watch films at the cinema rather than on TV. They are also far more likely to get out to the theatre or a pop concert, a classical concert , the ballet or the opera. They enjoy eating out and drinking both outside of the home and at home.

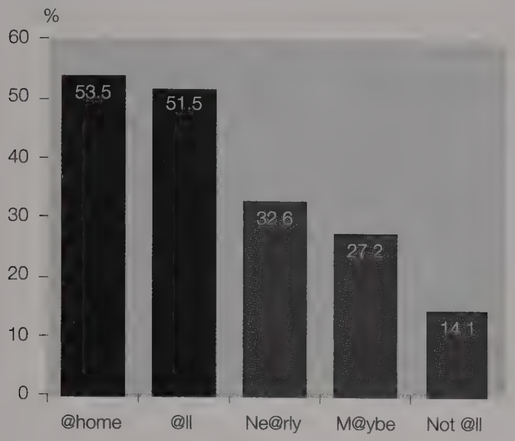
The @home users are much more likely to take far-flung holidays, and take three or more holidays a year. Importantly, they like to take control and make their own travel arrangements, often off the beaten track.

Media usage

The @homes group are heavy consumers of print media. When they read newspapers and magazines the @home group will seek out news, whether it be UK, European or world news. Interestingly, this group is less interested in editorials than news stories – it likes to form its own opinions.

The @homes also like to read the financial pages in the newspaper (12% specially choose to read the business pages, compared with only 2% of Ne@rly users). Whether they are reading the newspaper or a magazine, the @homes' focus on their career is reflected in their interest in the job pages as well as personal financial information.

Figure 3.14 Cinema popular with Internet users "I enjoy films at the cinema more than on TV" % agreeing



Source: The Henley Centre, Media Futures 1999

The @homes also like sport and particularly enjoy watching football, golf, rugby and skiing on television. Their enjoyment of sport means that they will frequently turn to the sports pages. They also read film and video reviews and love reading about holidays, food and drink. Their interest in the environment and science and technology seems to be related to their outward-looking attitude to the world.

Communications

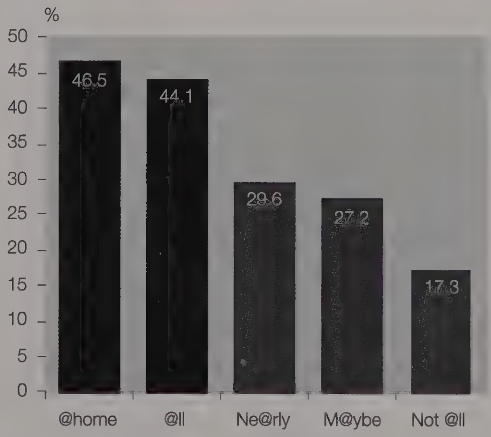
The @homes' cosmopolitan and international outlook is carried through to their telephone use – they make a great deal more international calls than other groups. They also take advantage of special codes (those that are free or charged at local rates). Almost a third of @home users say that they use their home phone for work-related calls.

Attitudes to marketing

The @home group's attitude to marketing is sophisticated and critical – it has high standards and expects providers to prove they are deserving of its custom. Getting it wrong once confirms suspicions. When questioned as to why companies ask them for information, members of this group say that it is in order to sell them more products (46% of @homes believe this compared to 17% of Not @lls). They are also aware that companies want information on them in order to categorise them. When asked what they would like in return for providing this information, over a quarter of these 'savvy' consumers reply that they would like money, compared to only 12% of the Not @lls. When asked if they care who has information on them, they are slightly more sensitive than other groups, but say that they will happily provide information if it will improve the service they receive.

When we look at the @home users' responses to advertising, we see a fairly proactive group. They use the phone to request information in response to adverts and are more likely to respond to direct mail. They want to be fully informed in order to make the right decision. Overall, @home users are slightly *less* likely to buy mail-order goods, although they are more likely to buy CDs by post than any other group. @home users will also respond to charity appeals in the paper or on TV.

Figure 3.15 **Why do you think companies want information from consumers? – They want to sell more!** % agreeing



Source: The Henley Centre, Media Futures 1999

The @ll user

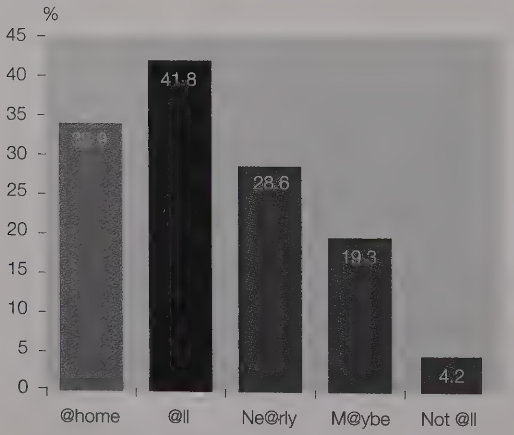
Summary

Many of the @lls are using the Internet at university, as well as elsewhere outside the home. On the whole, they are cosmopolitan, sophisticated and interactive individuals. They tend to be younger than the @homes, or at least young at heart. This is reflected in their attitudes and behaviour. For example, these people love takeaways, looking stylish and watching cartoons. They hate gardening and would much rather be driving round in their trendy car listening to the radio! If a job needs doing, this group thinks it is worth getting someone else to do it for them – they delegate the dull stuff. Butterflies – they go for flights of fancy and are likely to have a new craze every week. They love impulse buying, pay attention to image and fashion, and often find themselves tempted to buy the goods advertised.

Time and work

Time pressure is an issue for the @ll group. Although they say they feel close to people at work, they like to keep their work and home lives separate. When it comes to their jobs, they are less sure that their employment will be stable – just over 40% say they expect to have to retrain to gain a new skill, and almost 20% say they expect to lose their job within the next 12 months. The @ll user is more likely to work from home between one and two days a week, and even more likely to work from home occasionally.

Figure 3.16 @lls expect change in their lives "I expect to retrain to gain a new skill", % agreeing



Source: The Henley Centre, Media Futures 1999

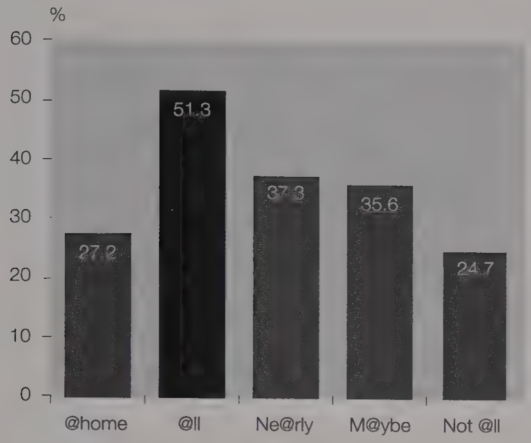
Leisure pursuits

It is when we look at this group's leisure profile that we see its youthful outlook showing through. Members are far more likely to enjoy cartoons and comedy than the other groups. They really enjoy sports and take exercise at least once a week. They will also spend more time watching esoteric sports than any of the other groups, be it basketball, cycling or American football. Nevertheless, the @lls still like mainstream sports such as football, golf and motor racing.

Like the @homes, the @lls are more inclined to go to a pop concert or a classical concert. When asked what music they most enjoy, they are twice as likely to say dance music as other groups. They are also four times as likely to go to a live jazz concert as the @homes! The @lls are also interested in film and video. They are keen on the arts, and not only enjoy reading about them, but are more likely to be spotted at an exhibition. They like to be out and about enjoying the company of other people.

As with the @home users, the @lls like to take control of their holidays. They are not keen on package holidays but, instead of making their own arrangements, they like their agent to make them for them. Over a third of them take one holiday a year, frequently in Europe. When asked whether they would consider a

Figure 3.17 @lls – the social drinker "I go to the pub for company as much as to drink", % agreeing



Source: The Henley Centre, Media Futures 1999; TGI

trip to Paris for a day, more than half of this group said yes!

Media usage

Not only do the @lls feel close to people who share the same hobby as them, they enjoy finding out about their hobbies and interests by watching TV. The @lls are as cosmopolitan as the @home users and enjoy watching television programmes from around the world, not just from Britain. They are slightly more likely than the other groups to seek out information about education, be it in magazines or in the newspaper. Their interest in their looks is demonstrated by the fact that they buy health and fitness magazines more frequently than other groups. And, might it be because of their young demographic profile that they enjoy magazines dealing with personal relationships?

Communications

The @lls are big users of the phone, particularly to contact friends. They use the phone frequently, and many of their calls from home are work- or business-related. This is also the group that stands out when asked whether it uses the phone to complain – 44% say that they do.

Attitudes to marketing

The @ll users are wise to the ways of companies. They have similar attitudes to the @home users, believing that companies request information from them in order to sell them more goods. When asked what they would like in return for information, more @ll users demanded customised products and services – they know what they want and they'll tell you! They are spontaneous with money, treating themselves when they feel tempted.

Style is very important to the @lls – they want to stand out in the right crowd with the right designer labels – no wonder that @ll users say they enjoy clothes shopping. Appearance is very important to them and nearly a quarter of them say that they would choose a car by its looks. If the @home user is concerned with the depth of an issue, the @ll user is more interested in surface.

The @ll user is likely to respond to promotions and appeals. More than half say they expect adverts to entertain them and, as impulse shoppers, they seem to want to be enticed into buying more. They demand of advertising: don't just inform me, perform for me, impress me.

The Ne@rly user

Summary

The Ne@rly user is highly aspirational and also hates privilege. He or she is very middle of the road in their attitudes. When the @home user has a strong positive reaction and the Not @ll has a strong negative one (or vice versa), the Ne@rlys will be smack bang in the middle of the two. Ne@rlys do not have hard and fast opinions about very much; instead they prefer to wait and see what other people are doing and then follow their lead. The one striking characteristic of this group, is that it is easily swayed. These people are waiting to find out whether the Internet is going to become a 'must have'. Only then will it become the next generation of users, taking the view that 'if they can do it, so can I'.

Time and work

The Ne@rly group works full-time and is more likely to have a young family. This makes its members time-pressured – they say they have no time to cook. The Ne@rly user hardly ever works from home.

Leisure pursuits

The Ne@rly user is less likely to articulate his leisure pursuits. Apart from liking TV ads, the most noticeable activity that he enjoys is watching boxing – some 24% will seek it out, compared to 19% of the @homes. The Ne@rlys also enjoy watching motorcycle racing and are more likely than any other group to enjoy easy-listening music.

The Ne@rly user takes an average number of holidays a year, and is marginally more likely to be on holiday in the UK than any other group. In fact, they rarely go on holidays abroad, if at all, with 40% of them not taking a holiday last year.

Media usage

An important differentiator between the groups is whether or not they focus outwards on the world, in the way we have seen the @home and @lls doing. The Ne@rly group is definitely locally minded – almost half watch the local news on television and they are less interested in national, European and world news than any other group.

The Ne@rly users buy beauty, diet, and women's magazines. They enjoy reading about things they would like to be doing, even if they are not actively able to do them – this group lives vicariously, it likes to see how the other half lives. For example, members are more likely to buy travel and holiday magazines than any other group, but as we saw earlier they take fewer holidays abroad. Although they don't express a very strong opinion about what they like to watch on TV, they are more likely than the other groups to buy television guides.

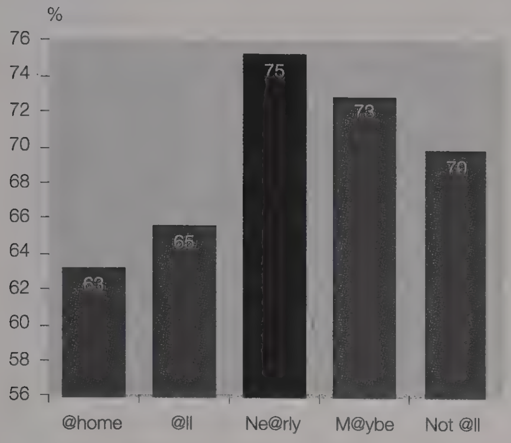
Communications

Unlike the previous two groups, the Ne@rly group uses the phone sparingly. 86% of users make no international calls, compared to 68% of @home users and 72% of Not @lls. They are also more likely to say that they make only between one and four phone calls a week. The only strong positive in their telephone behaviour is that they are more likely to make premium-rate calls to 0898 and 0891 numbers, perhaps to enter competitions and lotteries!

Attitudes to marketing

This group wants discounts in return for providing personal information to a company. They are also cynical – three quarters of them believe that nothing in life is free. Perhaps this is why they want companies to put a value on the information they provide. They feel they can't afford to put money aside, and thus another explanation for their bargain-hunting mentality is that every penny saved will come in handy.

Figure 3.18 Cynical Ne@rlys "I believe nothing in life is free", % agreeing



Source: The Henley Centre, Media Futures 1999; TGI

Whereas the @ll group wants to stand out from the crowd, the Ne@rlys want to be part of it. They want reassurance – somebody to say 'well done, you've done alright'. The Ne@rlys also lack confidence in their own judgement, preferring to be told rather than working it out for themselves. This characteristic is illustrated by the fact that the Ne@rlys are less likely to say that they think about the presents they buy for other people (68% or more of the other groups say they think about presents, compared to only 48% of the Ne@rly users). However, if the Ne@rlys feel they are being talked down to or misled, they react strongly against it – no one is above them.

As this is the group with the most young children it is probably no surprise that they are more likely to buy things mail order. The Ne@rly user is also slightly more likely than any other to order products or goods that they have seen on TV. In fact, this group love adverts and say that as far as they're concerned, TV ads are as good as the programmes.

The M@ybe user

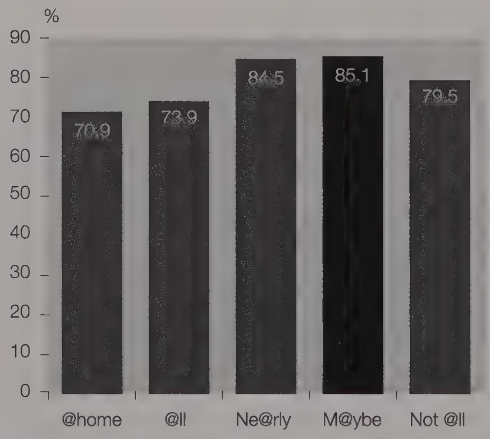
Summary

The M@ybe user is an insular type of person, only really interested in the people around him or her and we expect these people would be the most likely to say that their home is their castle. M@ybe users respect rules and traditions: for example, they would like to be addressed in a formal manner – Mr or Mrs X. Their world is closer to that of their parents than to the world of the @ll or the @home users. It is a world that is more about asserting and maintaining boundaries than about breaking them down. They know that there is another type of world outside, but they would prefer not to have it knocking on their door.

Time and work

Less of the M@ybe users are in full-time employment, with some 42% not working and the largest proportion falling into the D social class. When compared to the Ne@rly user, even fewer M@ybes work at home.

Figure 3.19 Family is important to the M@ybes "I enjoy time with my family", % agreeing



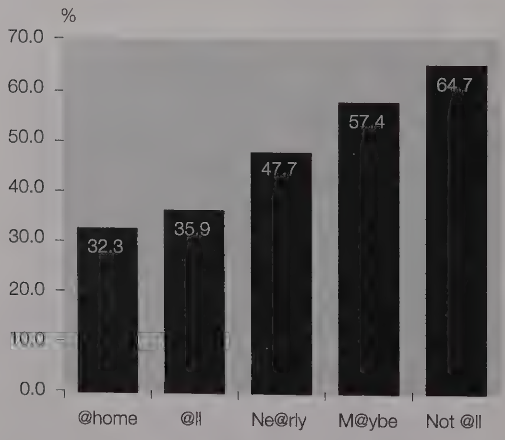
Source: The Henley Centre, Media Futures 1999;TGI

Leisure pursuits and media usage

The M@ybe user's life is based at home, with a partner and family. They are not particularly interested in forming relationships outside this rather insular context. Possibly one of the strongest indicators of the M@ybe user's world is his attitude to news. These people think that only local news is at all interesting. Although there is one other group (the Not @lls) that is even more keen on local news, the M@ybe user, particularly when it comes to magazine buying, is the least interested in European and world news.

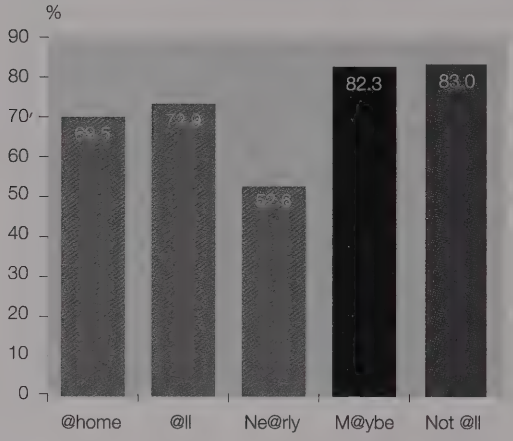
When it comes to their tastes in entertainment, M@ybe users only hold a couple of surprises. Almost 40% say that they enjoy watching British TV serials (soaps) and will actively seek them out. They also watch chat shows and listen to classic hits, for example on Capital Gold. No particular sport stands out as holding their interest, they don't even express a strong desire to watch football, cricket or golf.

Figure 3.20 M@ybes are locally-minded "I especially choose to watch local news on television", % agreeing



Source: The Henley Centre, Media Futures 1999

Figure 3.21 "It's good to talk" – M@ybes call their family (% who have telephoned their family over the last week)



Source: The Henley Centre, Media Futures 1999

Communications

The M@ybe user is more likely to use the telephone to call his family than any of the other groups (more than 80% of them say that they use the phone to call family). Nevertheless, although they make the most calls to their family, M@ybe users are more likely than any other group to reply that they make no phone calls at all.

Attitudes to marketing

Over 60% of M@ybes feel that when a company asks them for information about themselves, it is an invasion of their privacy. However, this group has a relatively high response rate to promotions and appeals. They are also likely to respond to direct mail, order goods that they have seen in the newspaper, and use mail-order magazines. Given all this, we can say they are the most responsive group of all. This is perhaps because they have the time on their hands to respond to companies, and to promotions and appeals. It is important to bear in mind, however, that M@ybes need very careful handling as they feel that direct approaches by companies are often an invasion of privacy.

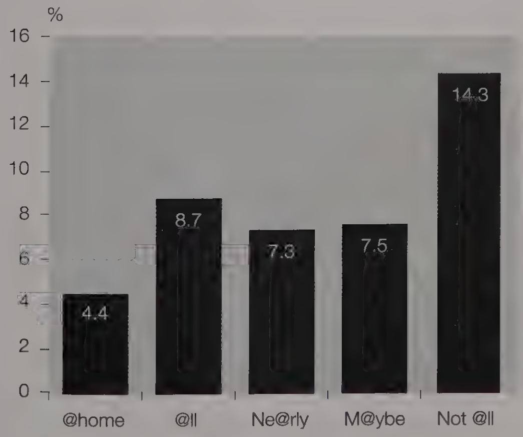
The Not @ll user

Summary

The Not @ll group is really 'not at all' at home with interactive technology. Less than a quarter of them believe that computers improve the quality of life, and over 65% say that they don't understand new technology. Although they love the TV, it takes a lot to persuade this group to even use Teletext (only 42% of them say they have ever seen it), and so it would be an uphill struggle to get them onto a computer and using the Internet.

In the same way that the @home user and the @ll user had strong opinions, the Not @ll user is also very opinionated. The portrait of this group is almost the antithesis of the @home user. The Not @ll user is likely to be retired, and this means that he has a very different sense of time and money from any of the other groups we have looked at. Their conservatism shows through in many different ways, the most striking being their attitude to women.

Figure 3.22 Women's lib – Not @ll! "A woman's place is in the home", % agreeing



Source: The Henley Centre, Media Futures 1999

Time and work

Leisure pursuits and media usage

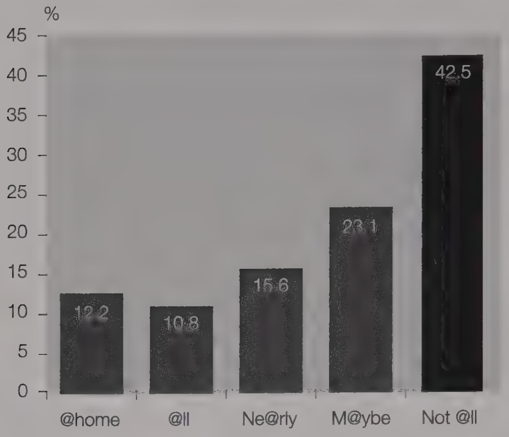
Not @lls have a very traditional view of the home – not only do they believe that a woman's place is in the home, but they are generally much more involved in doing things around the house. Thus, they say that the kitchen is the most important room in their house, that friends often ask about their garden and that they change their decor often. Over half of the Not @lls say they love a roast on Sunday and less than a third of them say that they love foreign food.

More than 50% of Not @lls say that they like routine and a similar number say that a daily walk is needed. However, the Not @lls are the group that gets out and about the least. As such, they are more likely to pursue in-home leisure activities. This is reflected in their media usage. This is the group most likely to watch or read about the home, what's on telly, DIY, food and drink and sewing! Not @lls also enjoy people-based TV shows, be they British or world soaps, game shows or human-interest programmes – they love them all.

Although just over 35% of Not @lls say they holiday in Britain, a large percentage of them have not taken a holiday at all (42%). When they do take a holiday, the Not@lls are most likely to get a tour operator to book them a package. Only 16% of them say that they go abroad at least once a year, with Europe being the furthest they would travel.

The Not @lls are very interested in local news on the TV (65% of Not @lls, compared with 32% of @homes) and are more likely to listen to local radio. They are also interested in UK and national news and current affairs programmes, but, interestingly, they say that they believe local rather than national news.

Figure 3.23 Not @lls are locally-minded % feeling they have something in common with people who live in the same area as them



Source: The Henley Centre, Media Futures 1999

Not @lls read the editorials in both newspapers and magazines more than any other group. However, they are less likely to read about sport – only 17% choose to read about sport in the paper, compared to 29% of @home users.

Communications

The Not @ll feels that they 'belong' in a very different way from all the other groups. The aspect of society that they feel closest to is their local community – 44% say they feel close to their neighbours and 38% feel close to the people who live in the same area. The Not @lls' outlook on the world is reflected in their use of the telephone to keep in touch with their family. They do not use the phone much to respond to adverts or to call shops or businesses for any reason.

Attitudes to marketing

The Not @lls are very different consumers to the @home or @ll users, being less sophisticated, urbane and cosmopolitan. They are a more conservative and conventional bunch, with over 60% of them saying that they buy British whenever they can.

Compared to the other groups, the Not @ll user is less cynical in his relationships with companies. They are more trusting and perhaps a little naïve, so it is relatively easy for a company to extract information from this group. When they are asked *why* they think companies want information about them, the Not @ll reply that it is to provide them with a better service.

Not @lls are least likely to respond to advertisements and need to be approached in a different way from other groups. The thing to bear in mind with the Not @lls is their sense of relationship with people who resemble themselves. One can imagine having made an appointment, calling at their door, the appropriate newspaper in hand, wearing the 'right' clothes and getting a very positive response.

The media reflex

In different situations, different groups of consumers will turn to different media to help them navigate through their everyday lives. Given a particular set of circumstances, a consumer will semi-automatically choose one medium over a whole host of others. We call this the 'media reflex'. Reflex media, The Henley Centre would argue, command a greater share of mind because of their almost automatic status. However, this depends on the specific circumstances in question and the needs to be fulfilled. To a much lesser extent, the lifestyles, attitudes and demographics of the person making the media choices also influence the media reflex.

For *Media Futures 1999*, The Henley Centre tested the consumer media reflex to gauge the share of mind of particular media – where they stand in the competitive set. To do this, we asked consumers which medium they would use in a number of everyday life scenarios. These scenarios ranged from where they would turn to find out the result of a sports event that had just ended to what would they do if they wanted to relax after a hard day. For 20 scenarios, they were given a choice of 24 different options. The choices were not limited to the traditional view of media, which would include national or local newspapers, video games, the World Wide Web, multi-channel or terrestrial TV. Respondents could also choose between going to visit a shop, talking to friends and family, and even consulting an advisor or expert. They were also asked to make a second choice: if their first choice were unavailable, where would they go next?

Each of the scenarios was indicative of one of 10 needs. These needs were:

Stimulate	Entertain
Inform	Enlighten
Discuss	Tell
Compare	Plan
Sell	Buy

For each scenario, we analysed consumers' first and second choices, and thus scored and ranked the mind-share of each medium. This allows us to assess the strengths and weaknesses of the media in particular areas. The exercise was repeated using each of the five segments of current and potential Internet users. This analysis provides insight into how the Internet competes with other media for consumer mind-share and how access to the Internet changes people's media usage.

Stimulate and entertain

Stimulation and entertainment are not mutually exclusive, but they are far from being the same thing. The two are often combined in a single programme, book or magazine, and some media, such as television, perform well on both aspects.

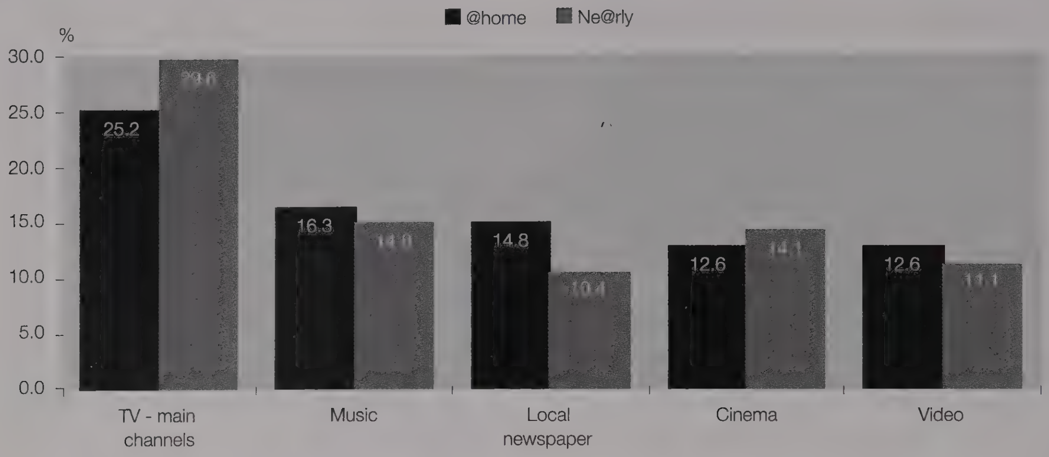
Not unsurprisingly, consumers turn first to terrestrial TV for entertainment. However, TV does better among less interactive people – the Not @lls give terrestrial TV almost a third of share of mind for entertainment, while the @homes only give it a quarter. Moreover, although terrestrial television also scores well on stimulation (between 9% and 15% share of mind across the segments), it is firmly thought of as an entertainment medium.

After terrestrial TV, the next entertainment reflex is to listen to music. This is particularly the case for the two Internet-using segments – @home and @ll. Among the Ne@rlys, music and multi-channel television are placed neck and neck. Cinema and video both claim a portion of the entertainment share of mind. However, videos are not seen as stimulating by Internet users.

Neither the @home or the @ll groups scored the Internet (Web or e-mail) high for entertainment. In fact, it scored so low that it did not figure in the ranking process at all. The Internet is clearly not the first place to which people turn when they want to be entertained (at least not at present).

When they want to be stimulated, most people's reflex is to pick up a book. This consensus about books is supported by the widespread perception that time spent reading books is quality time. In contrast,

Figure 3.24 The media reflex for 'entertainment'



Source: The Henley Centre, Media Futures 1999

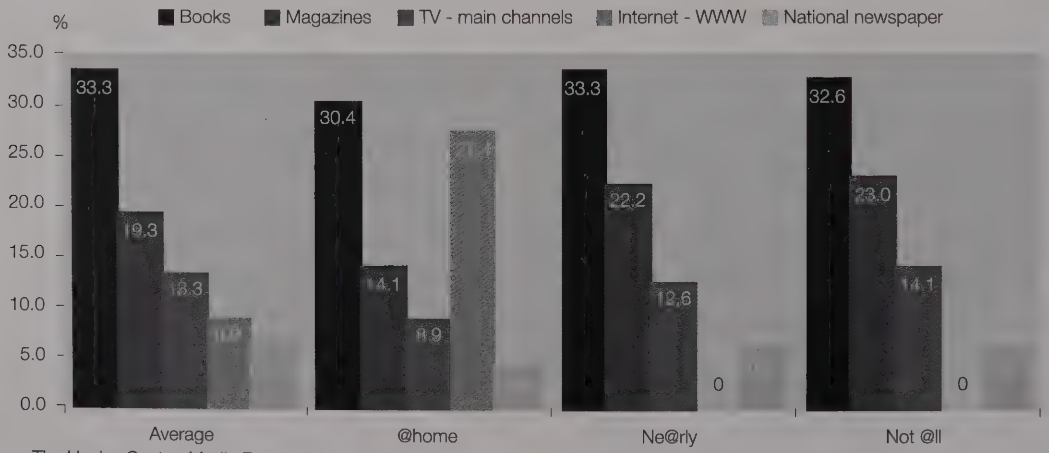
books score quite low when it comes to wanting to be entertained.

On average magazines possess the second greatest share of mind for stimulation. However, for @home Internet users, the Web gets second place, and the Web is placed third, after magazines, by the @ll group of Internet users. Thus, although the Internet is not seen as an entertaining medium, once people have it, they do turn to it for mental stimulation. The Internet displaces both magazines and terrestrial television; clearly there is something that the Internet offers that they find it hard to compete with.

Inform and enlighten

The categories 'inform' and 'enlighten' are two sides of the same coin. To be informed is to keep up with the facts (eg, the headlines) or find out a piece of information (eg, the telephone number of a plumber). To be enlightened is to learn a bit more about a

Figure 3.25 The media reflex for 'stimulation'



Source: The Henley Centre, Media Futures 1999

story or piece of information. Unlike stimulation and entertainment, this is bound by time. The information required may only be current for a short time (eg, news headlines), or the answer may be required immediately or within a specific timeframe because a practical action may follow (eg, you need to know what time Sainsbury's closes in order not to get there too late!). This sensitivity to time is a crucial determinant of the responses given.

When it comes to being informed, terrestrial television is the reflex choice across all groups. That said, TTV never has more than one fifth of the reflex share of mind. After TTV, Teletext does well, scoring nearly as well as TTV except amongst the M@ybes. The M@ybes choose local papers and local radio above Teletext. Every other segment also gave these two local sources of information quite a high share of mind.

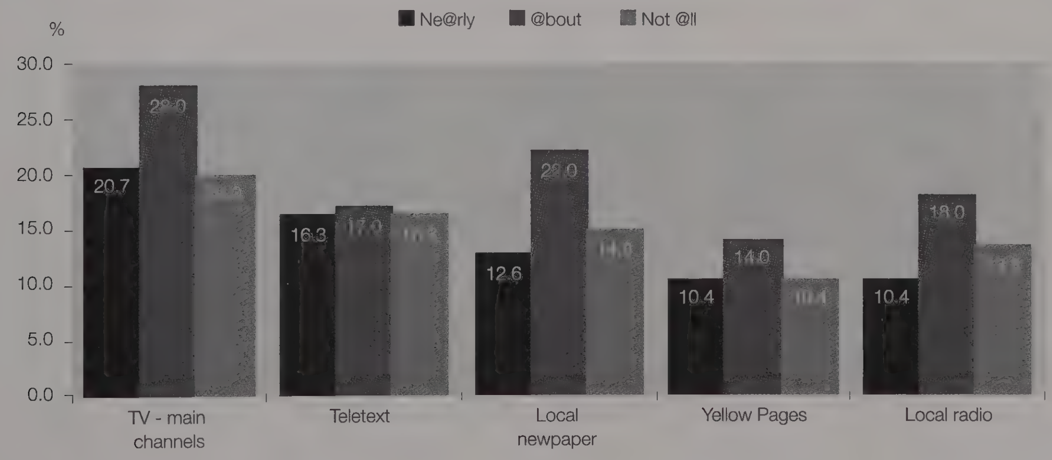
Another option that was frequently chosen to be informed about something was Yellow Pages. Interestingly, the @ll group placed quite a lot of emphasis on word-of-mouth when they were seeking information. Only the @homes gave any reflex share to the Internet and situated the Web firmly in the inform rather than enlighten camp.

Overall, broadcast media performed best in both categories. For both informing and enlightening, broadcast media were allocated over 55% of media reflex. Print media account for the next largest share. Not surprisingly, while magazines did well in terms of enlightening, they did not score well when it came to informing. The need for immediate access to up-to-date information is reflected in the high scores given to Teletext. The only exception is the Not @lls who gave local newspapers first place for enlightenment and relegated Teletext to fourth place.

Discuss and tell

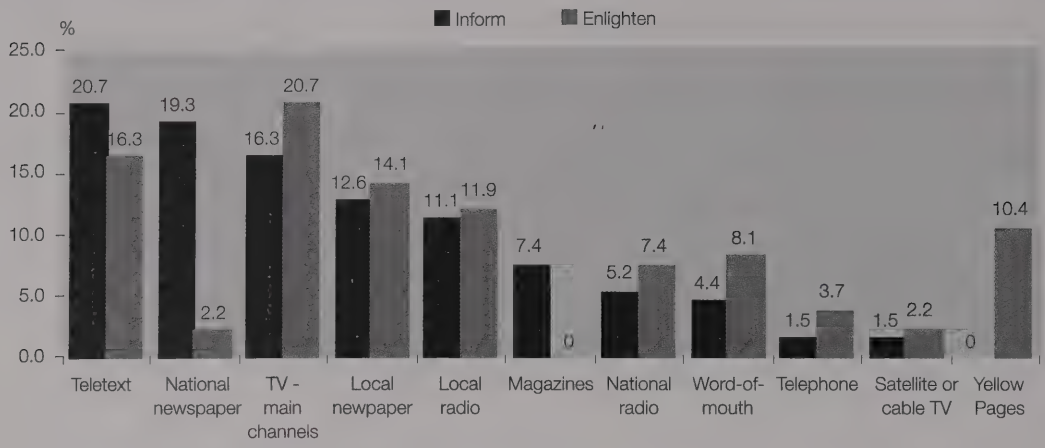
It is in the categories of 'discuss' and 'tell' that the Internet comes into its own. The media options that respondents were given included a choice of both the World Wide Web and e-mail. Both these Internet-based media were chosen. Although neither achieves top share of mind, their relatively

Figure 3.26 Non-Internet users' choice of media for being 'informed'



Source: The Henley Centre, Media Futures 1999

Figure 3.27 The media reflex for 'inform' and 'enlighten'



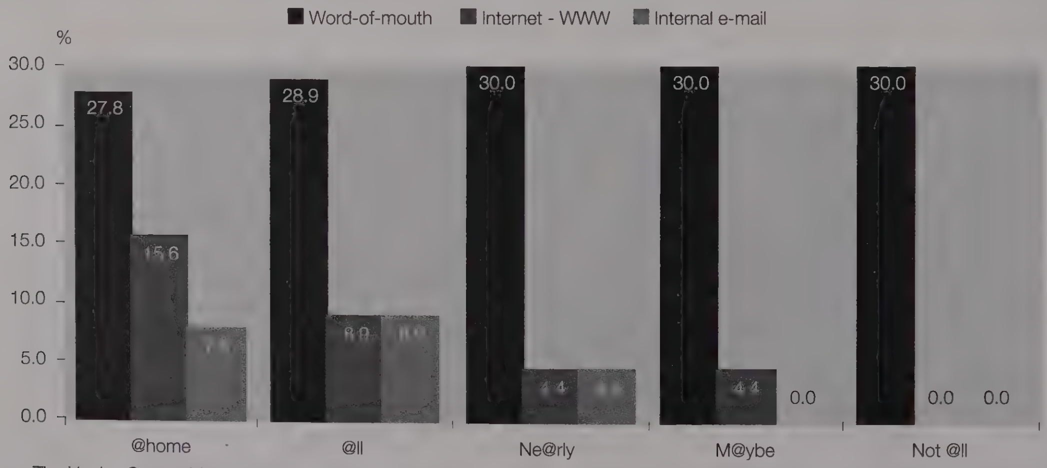
Source: The Henley Centre, Media Futures 1999
Base: All consumers

high shares underscore the strong association of the Internet with communication.

When it comes to discussing things, it is still to friends and family that people turn first. Second choice is the telephone. The importance of face-to-face discussion is underlined by the fact that professional advisors and experts have the third largest share of mind and a personal visit to a branch or shop in fourth place. Among the Ne@rly group, the four face-to-face options account for 77% of the consumer's share of mind.

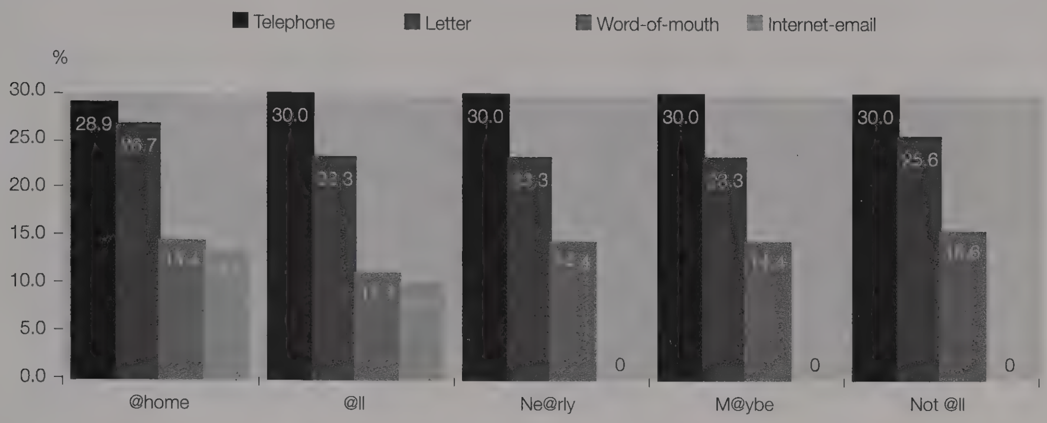
What is most surprising about the choices in this area is the prominence of the Internet. The only group not to give the Internet any share of mind was the Not @lls. Despite the fact that both the Ne@rlys and the M@ybes are not currently using the Internet, it still possesses a significant share of their minds. Among @home users, the Internet has a 24%

Figure 3.28 'Discuss': the media reflex for word of mouth, e-mail and the Web



Source: The Henley Centre, Media Futures 1999

Figure 3.29 The media reflex for 'telling' people things



Source: The Henley Centre, Media Futures 1999

share of mind (16% for the Web and 8% for e-mail) and an 18% share of mind among the @lls (equally split between the Web and e-mail). The media that lost out to the Internet were talking directly to friends and family, the use of the telephone and letter writing. Talking directly to a professional advisor or going to a shop or branch both maintained their share of mind among Internet users.

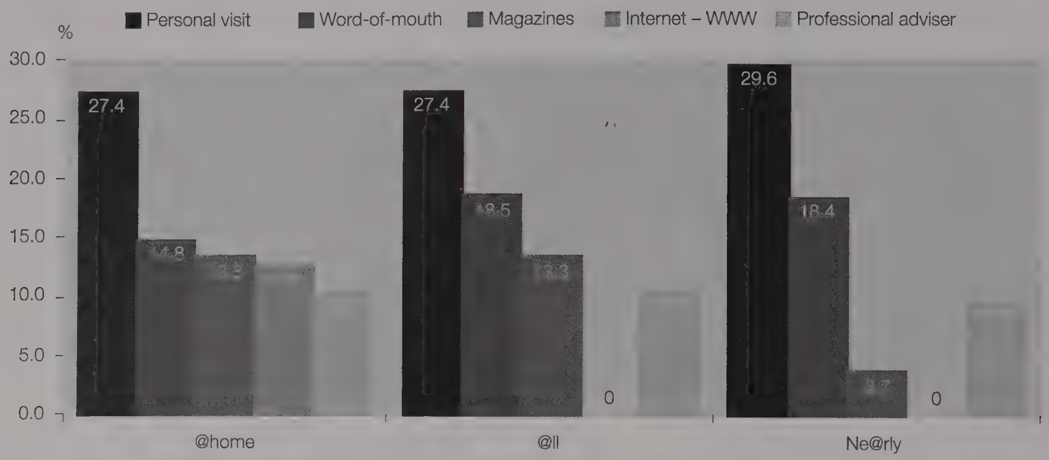
If the media reflex was clear when it came to discussion, it is even more obvious when it comes to telling someone about something. It is by letter and by telephone that every segment prefers to tell or announce something. In none of the groups does the share of mind for either of these two media fall bellow 50%. It is interesting that the local newspaper performs quite well as a communications medium, given its more obvious role as a provider of information, entertainment and stimulation.

The Internet is only placed in the rankings for telling by the two segments with hands-on experience of it – the @home and @ll users. It seems that the Internet does not take share from the leading 'telling' media (telephone and letter), but instead competes with media that are of marginal importance in this area – local radio or national newspapers. In the medium to long term, however, the Internet will become more of a threat to both the telephone and 'snail mail'. As more people gain Internet access, the more valuable it will be as a communication medium. As the reach of the Internet increases, so will its share.

Compare and plan

Comparing what's on offer and planning what to spend one's time and money on are at the heart of the consumer buying process. The three non-Internet-using groups have virtually the same reflex when it comes to comparing things – they give just under a third of their share of mind to a personal visit. The choice on offer in shops as well as the ability to touch and feel products remains a core need for these people. Nevertheless, they also rely on the experiences of friends and family – word-of-mouth scores quite well for non-Internet users, as does consulting a professional advisor. However, the consensus breaks down at this point. The more interactively minded segments – Ne@rlys and M@ybes – give a

Figure 3.30 How @home consumers 'compare' things



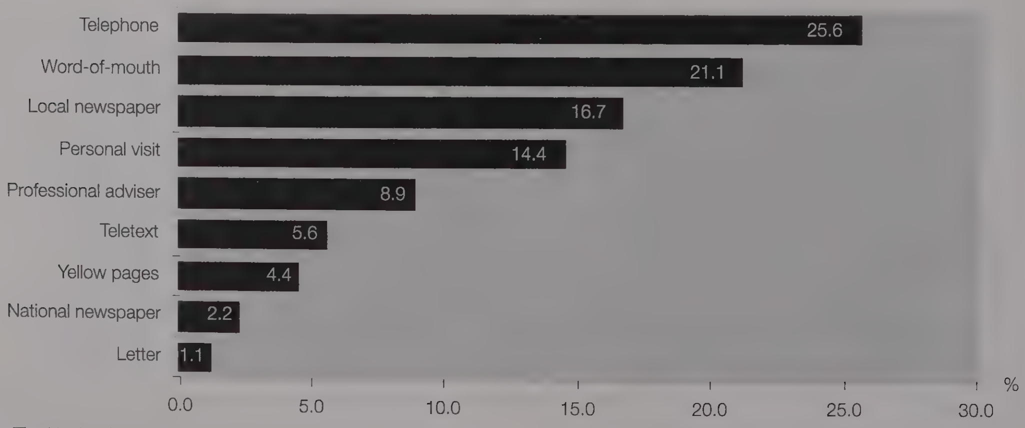
Source: The Henley Centre, Media Futures 1999

relatively high score to Teletext, whereas the Not @ll's prefer to consult the local paper.

Both the Internet-using groups also give visiting a shop the highest share of mind when it comes to comparison-shopping. However, they differ considerably from the non-Internet-using groups in their second choice of media. For Internet users, magazines are an important medium for comparing goods and services. Only the @home users turn to the Internet when they want to make comparisons. Both the @homes and the @lls still see the importance of professional advisors, friends and family in helping them to make choices and decisions.

Consumers are similar in their approach to planning things. The telephone is given the largest share of mind (this could be seen as an extension of talking to friends and family). Talking with friends and family gets the second highest share of mind when people come to making plans. Local newspapers, a visit to a shop and a chat with an expert also feature as planning reflex mediations. Again,

Figure 3.31 The media reflex for 'planning'



Source: The Henley Centre, Media Futures 1999

the Internet is only used by the @home group; it takes 6% share of their planning mind.

Broadcast media perform poorly when it comes to planning and comparing. Teletext performs quite well, and local papers also cross the plan-compare divide, particularly among consumers who are less confident with interactive technology.

Buy and sell

If somebody wants to buy something, their first reflex is still to visit a shop. Opinion is divided on the second-place reflex, however. This reflects the fact that, when asked about buying something, consumers tended to think about every stage in the process. Magazines were second place for the @homes, the @lls and the M@ybes. Among the Ne@rlys and the Not @lls, talking to friends and family came second. The @home segment prefers to gather its own information, using magazines (most likely to be 'What X or Y' or *Which?*) and the local paper. This is also the group that gives the telephone the highest share of mind. The Internet receives 10% share – still way down on traditional options. The Internet was not chosen by any other group as a transactions medium.

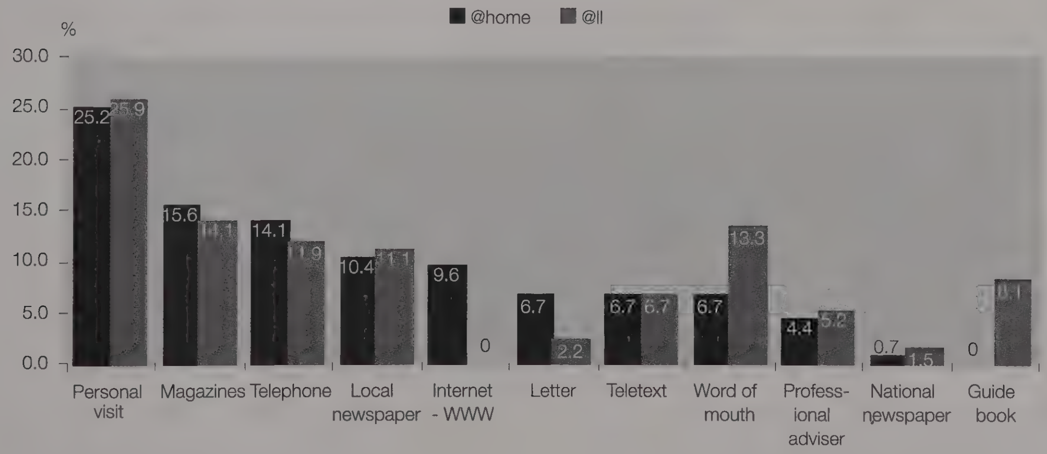
The classified section of the local paper is the No 1 spot for selling – between a third and a quarter of people would place an ad in the local paper if they wanted to sell something. Not surprisingly, it is the @home group alone that sees the Internet as medium for selling things – giving it 9% share of mind, slightly less than it gives it for buying.

Conclusions

Core media

Each of the five consumer segments places a different emphasis on which medium to use to fulfil the 10 categories of needs. That being said, there are 11 media that are used by every segment. These media can be called 'core media'. As yet, the Internet is excluded from this group. Interestingly, radio is also excluded, most likely because it is typically a background medium rather than something that people turn to when they have a specific

Figure 3.32 Internet users still prefer the shops for shopping



Source: The Henley Centre, Media Futures 1999

need. The core media are:

- Books
- Magazines
- Local newspapers
- National newspapers
- The five terrestrial TV channels
- Teletext
- The telephone
- The post
- Talking to friends and family
- Visiting a shop/business premises
- Listening to recorded music

Media stretch vs. depth

In this section, we examine two measures that indicate the extent to which a particular medium is embedded in the everyday lives of consumers:

- Whether it *stretches across* the 10 needs
- Whether it *dominates* any of the 10 needs

Few media are flexible enough to stretch across each of the 10 needs. The two that have the greatest stretch are local newspapers and talking to friends and family – each segment gives some prominence to both. While neither option receive a high share of mind in many categories of need, they do make it into the top three in eight, nine or 10 categories (depending on the specific consumer segment). However, local newspapers are also the option that is most often ignored. This suggests that, for some consumers, it exhibits the characteristic of 'jack of all trades and master of none'.

None of the individual media can be said to truly dominate any of the 10 need categories – the top score for share of mind never reaches 50%. These results indicate the fierce competition between the media for consumers' share of mind. They also reflect the sheer diversity of uses to which the media can be put. The highest individual scores are 42% for entertain for the terrestrial TV channels, and 45% for books for stimulate. Also in a strong position are visiting a shop/business premises for compare and buy.

Figure 3.33 Top three scoring media for each need category

Stimulate	**Entertain**
Books 45%	Terrestrial TV 42%
Magazines 26%	Recorded music 22%
Terrestrial TV 18%	Cinema 17%
Inform	**Enlighten**
Terrestrial TV 28%	Teletext 28%
Teletext 22%	National newspapers 26%
Local newspaper 19%	Terrestrial TV 22%
Discuss	**Tell**
Word-of-mouth 27%	Telephone 27%
Telephone 21%	Letter 23%
Professional advisor 14%	Local newspaper 13%
Compare	**Plan**
Personal visit 39%	Telephone 23%
Word-of-mouth 20%	Word-of-mouth 19%
Telephone 16%	Local newspaper 15%
Sell	**Buy**
Local newspaper 26%	Personal visit 37%
Word-of-mouth 18%	Magazines 23%
Magazines 18%	Local newspaper 19%

Source: The Henley Centre, Media Futures 1999

Where the Internet comes in

Among its users, the Internet (and more specifically the World Wide Web) has a role in satisfying every need apart from entertainment. It is primarily used for communication and transacting, however it performs well as an information medium when used as part of the decision-making process or to deliver real-time news information. It is important to remember, however, that even high-tech people (eg, the @home group) still believe in the old-fashioned way of doing things.

For the @ll user, the Web sticks out as a technology that does two things very well – it provides stimulation and provides advice. The @ll user seems to use the Internet as a guidebook and magazine on one hand, and a professional advisor on the other. In contrast to the @home segment which uses e-mail for informal communication (rather like a phone chat), @ll users regard e-mail as closer to writing letters. Exposure to the Internet exclusively outside the home reduces some of this group's ability to explore its full range of uses.

The Ne@rly group is more likely to use personal advisors – its members need a push when it comes to making a decision. The Ne@rly segment is also the only group to have cable and satellite television in its list of top media. Like terrestrial television, cable and satellite television occupies the 'stimulate/entertain' and 'enlighten/inform' needs categories. It is this group of consumers that is likely to be the adopters of digital television. Ne@rlys might even prefer the more limited and structured choice of information and transactions services that will be available via the interactive component of digital television.

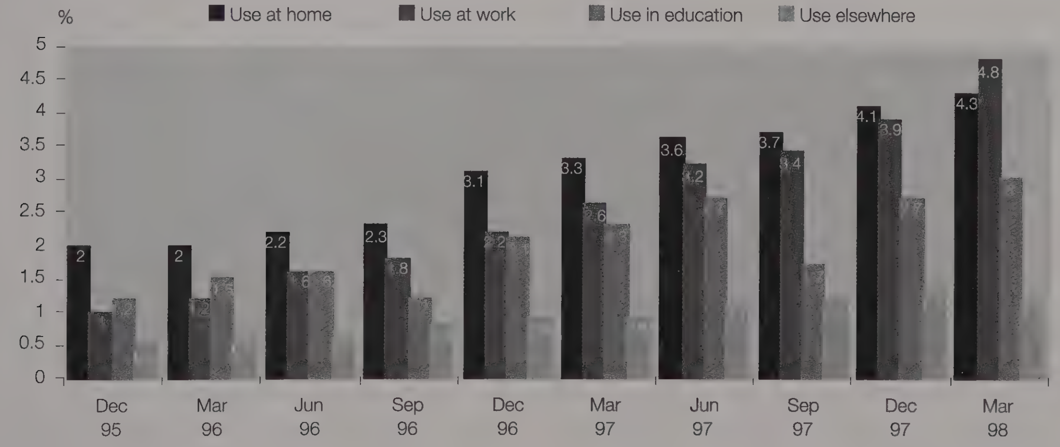
3.3 What is the Internet used for today?

This section draws on BMRB's on-going Internet Monitor research to provide an in-depth picture of current consumer behaviour on the World Wide Web. We describe how often consumers log-on, how long they spend on-line, which sites they like, how they find them and what they do when they get there.

Time spent on the Internet

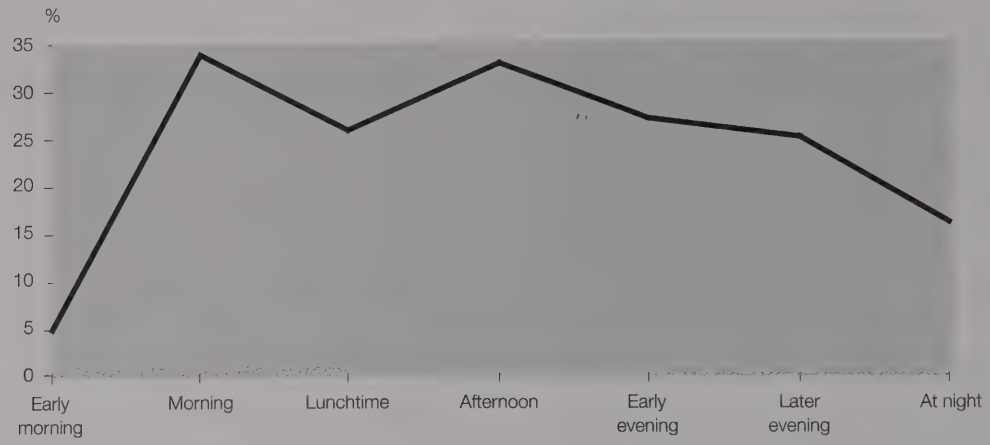
The use of the Internet is affected by the time of year – there are seasonal effects. Over the year, the number of Internet users rises and falls as students at university or workers in offices leave for their holidays and then return. This is a function of the current user base, which still has the majority of users accessing the Internet from their place of work or study. This seasonality will cease to be an issue as more and more users take the Internet into their homes.

Figure 3.34 Where do Internet users access the Internet?



Source: BMRB, Internet Monitor

Figure 3.35 The pattern of Internet use – weekdays What times of the day are you most likely to be connected to the Internet during the week?

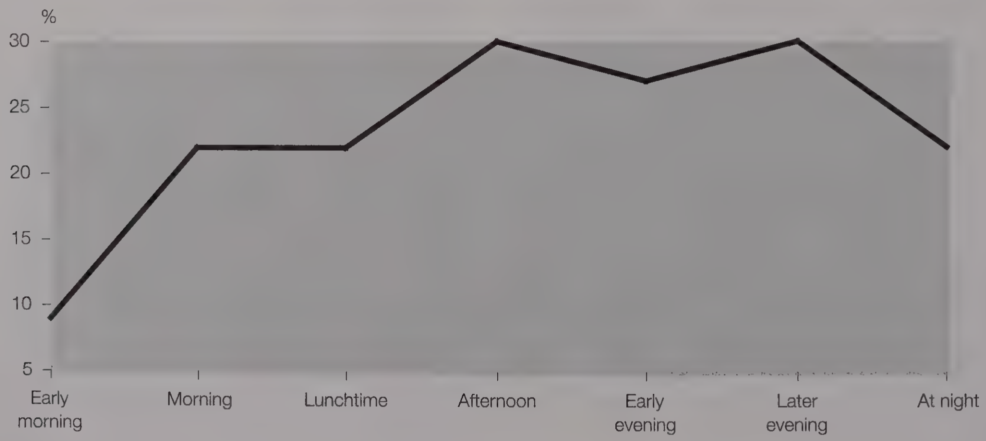


Source: BMRB, Internet Monitor

The changes in Internet use over the course of the year match the ebb and flow of use over a week. There are peaks and troughs driven by the context of use. The Internet is used less at the weekend than it is during the week, again this is because home users still make up a minority of web users. Even during the course of the day, the Internet is subject to greater use at particular times. The peak in Internet use during the week is first thing in the morning. Like the rush for the post, people are enthusiastic about checking their e-mail. Usage drops over lunchtime to rise again in the afternoon. From the high of the afternoon, it then tails off as the evening progresses – as computers are switched off, televisions are switched on.

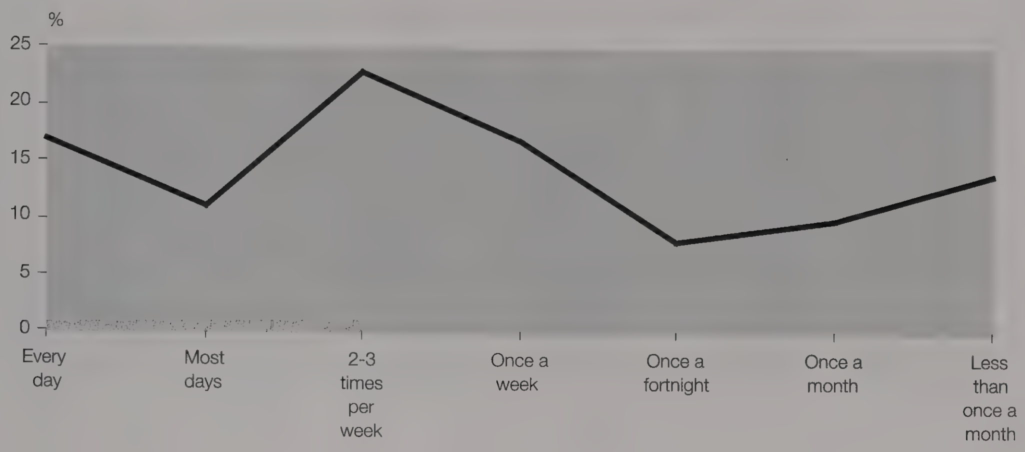
Internet use during the week is the inverse of television use. Most people log-on in the morning and then again in early afternoon. Some 73% of home users do not access the Internet during television prime time. This trend is reversed at the weekend, however,

Figure 3.6 The pattern of Internet use – weekends What times of the day are you most likely to be connected to the Internet at the weekend?



Source: BMRB, Internet Monitor
Base: Home users only

Figure 3.37 Frequency of Internet use over a six-month period



Source: BMRB, Internet Monitor

when Internet use typically moves from being a daytime to an evening activity.

Most people do not use the Internet every day, but the majority of users do use it at least once a week. The more frequent users tend to be older, male and more up market – 32% of male users are on-line every or most days, as are 35% of the over 55s and 30% of ABs. For these groups, the Internet is becoming integrated into their everyday lives. The higher the frequency of use the greater the integration.

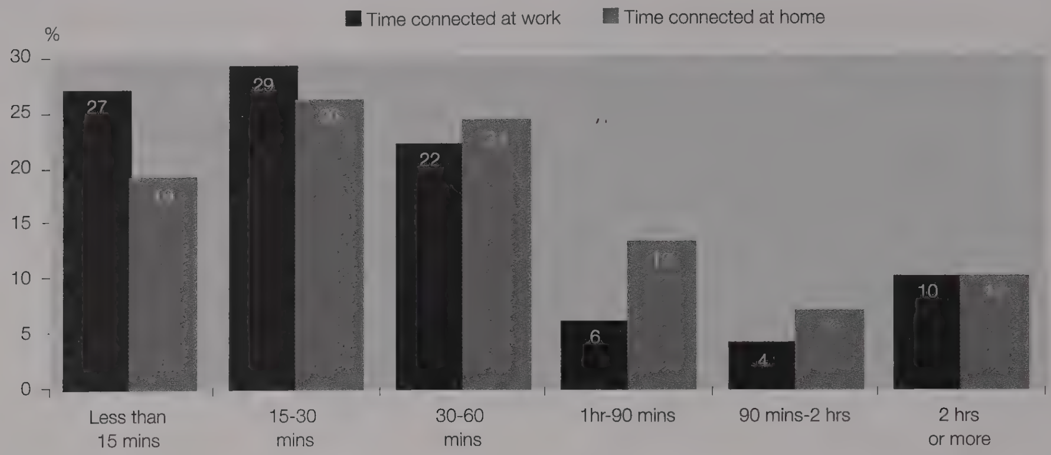
The location of Internet-use effects frequency of use – work-only users log-on on more frequently that home-only users, and 62% of people who use both at home and work use the Internet most or everyday. This upholds the hypothesis that the more advanced users are those who can access the Internet from home as well as other non-home points of access.

The amount of time that people spend using the Internet is still relatively small, and is affected by the location of the Internet user – home, work, and college. The average amount of time spent on-line at home is 50 minutes per day, with only 30% of home users spending more that one hour on-line. Work users spend less time – 45 minutes in an average day, with less spending more than an hour – 23% in total. The amount of time that people are spending on-line at home amounts to less than 6 hours in an average week. While, this amount of time is quite considerable, it is still much smaller than the 25 hours a week of television.

The location of use, work, home or both, makes an enormous difference to the frequency and duration of Internet use. While home-only and work-only users are similar in terms of both dimensions, people who use at home and work are much greater users of the Internet overall. They go on-line more often and stay for longer periods of time. This may not be very surprising, but it is something that should be highlighted.

One of the most striking things about the frequency and duration of Internet use is the way that different age groups have very different styles of use. Younger users tend to log-on less often, but stay on for longer, whereas older users tend to log-on more frequently and stay on for shorter periods of

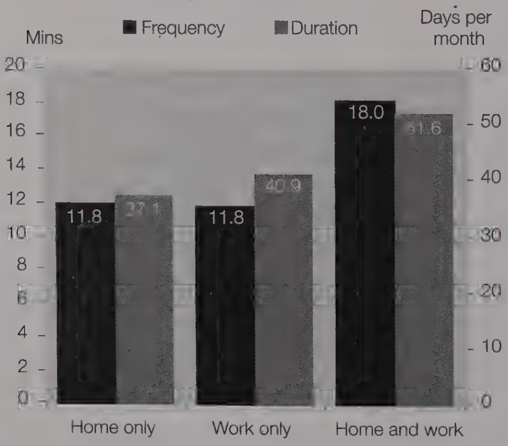
Figure 3.38 How long do people spend on-line – home and work



Source: BMRB, Internet Monitor

time. This might account for the different degree of patience that the different age groups express about how long sites take to download. Younger users are more patient with download speeds than older users. 20-24 year olds will wait an average of 215 seconds before leaving (12% will of them will only wait 30 seconds). In contrast, the over 55s will wait no more than 116 seconds (25% of them will wait 30 seconds).

Figure 3.39 Average frequency and duration of Internet use – home, work and both



Source: BMRB, Internet Monitor

In *Media Futures 1997*, we concluded that it is not the programmes that people 'especially choose' to watch that are under threat from the Internet. Instead, it is television viewing 'for the sake of it' – what could be called 'background viewing' – that is under threat. This poses a dilemma for the commercial TV companies, as a significant reduction in the quantity of total viewing would threaten their advertising revenues.

The above argument assumes that the Internet and television are competitors. It is perfectly possible, however, to develop an Internet strategy that assumes collaboration and not competition. The BBC is trying to exploit content synergies over the Web. Over 60% of Internet users are aware that the BBC has a web presence and over 30% of Internet users have visited a BBC web site. Most visitors to the site go there for information about television and radio services, the news or sport.

The use of the television and radio to drive traffic to the BBC web site is highly effective, with almost half of visitors saying that they had heard about the site on television or radio. Only 15% used a search engine, which is quite the opposite of the normal method of finding a site. Rather than being a threat, the Internet is seen as an opportunity to exploit the synergies across media.

How many sites are visited?

The average number of sites visited each month by users is 22. Men visit more sites than women – the majority of women visit between three and nine sites a month. Caution is advised with these figures as they raise more questions than they answer. The most important question concerns how consumers define 'visiting' a web site. The use of the Web, because it is a hypertext technology, means that it is possible to access tens, if not hundreds, of web sites in a single session. During the course of a month a user might 'pass through' many hundreds of sites, 'stop over' in some, but only think they had 'visited' 20 odd. Looking at the server logs is one way to determine how many 'visits' a site has, another is to understand what constitutes a 'visit' from the consumers' point of view. Judging by the small number of web sites that consumers say that they visit, it seems that Internet users are highly discriminating in their understanding of a 'visit'.

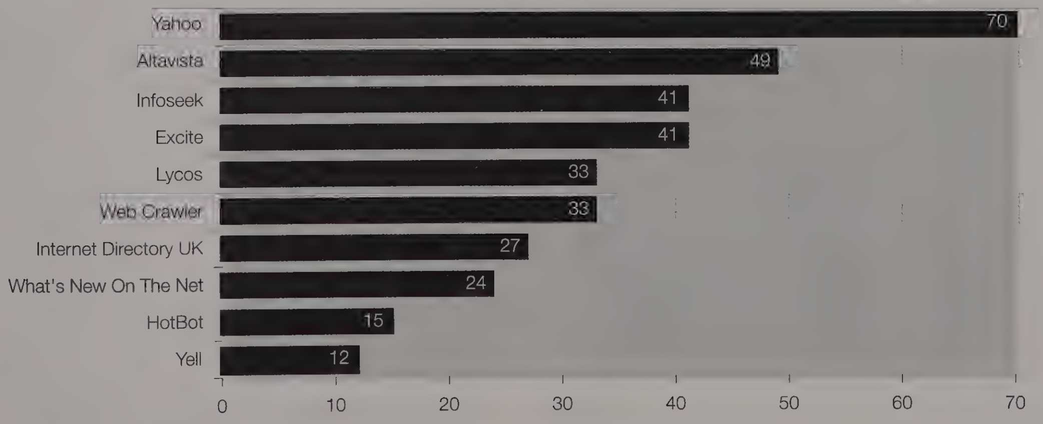
How do they navigate the Net?

Search engines and general surfing

The most usual way for an Internet user to find a web site is through a search engine (Yahoo! , Excite, Lycos, Infoseek, etc) – 72% of users choose this method for finding sites. The search engine that has the greatest reach is Yahoo! – 70% of users have visited it. This is considerably higher than AltaVista, the search engine in the number two slot – 49% have visited. Like the other search engines, Yahoo! is trying hard to leverage its reach by adding new services alongside the search facilities that they offer. But, their primary purpose, and their core business, rests on their ability to help users find the web sites that they are interested in.

The way that most light Internet users find a web site is through general surfing – 57% choose the sites to visit in this way. Overall, this method of discovery is not preferred over

Figure 3.40 The reach of top 10 Internet search engines



Source: BMRB, Internet Monitor

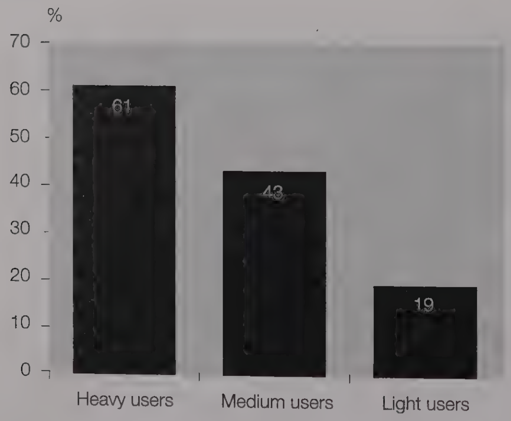
search engines. But, these two styles of choosing sites are not mutually exclusive – they represent two modes of use, rather than two distinct types of user – there are times when either way is appropriate. Sometimes serendipity is desired, other times focus.

Bookmarks

Bookmarks represent an easy way for users to return to a web site they have already visited. The search engine might supply the new visitor, but if the visitor likes what they see when they get there, they will bookmark it. This means they will store the addresses of their favourite sites on their computer so that they can return there with the click of a mouse button. Bookmarks allow users quick and easy access to the sites that they find interesting and compelling and wish to return to – they create a short cut to the site, bypassing the labyrinth of the Internet and the search engines.

The latest data available on the use of bookmarks in the BMRB Internet Monitor is from 1997. At this time, half of users said they had bookmarks stored on their web browser.

Figure 3.41 % using bookmarks



Source: BMRB, Internet Monitor

They tended to be older, AB men. The average number of bookmarks saved was 18. The use of bookmarks was something that increased with experience – heavy net users had an average of 24 bookmarks (30% had more than 30) and light users had ten (8% had more than 30).

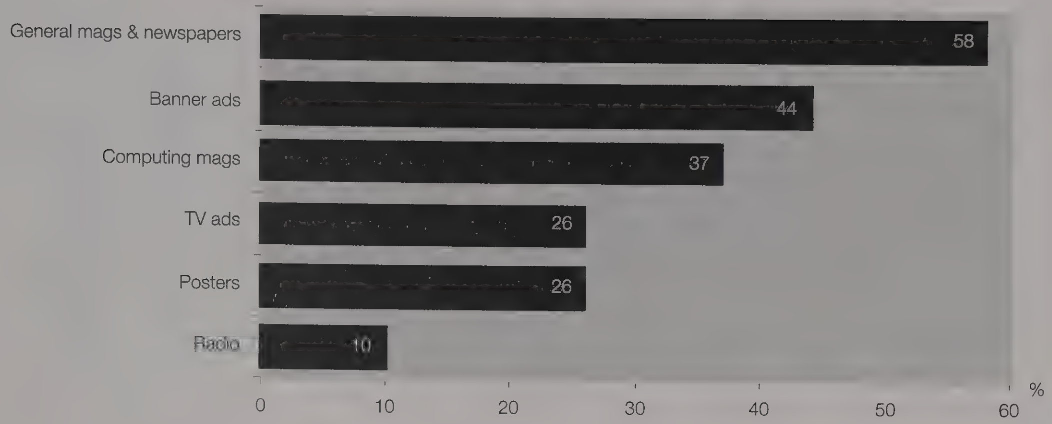
As time passes, people will collect more and more bookmarks and, without proper management, they will become as hard to sort through as the Internet itself. That said, bookmarks are going to become more and more important in the struggle to get users to return to a site. Software for bookmark management is increasingly being built into browsers or becoming available as a plug-in utility. This could eventually turn the browser into a personal search engine, where favourite sights are stored and the status of links are regularly checked.

For the new user, word-of-mouth is a very important way to explore what the Web has to offer. They turn to those with more experience to give them help, advice and guidance. Women are more likely to have web sites suggested to them by other people, and so are younger users. The swapping of web addresses extends the social nature of the Web into real life – in their on-line travels, a user finds something that they feel somebody they know should be told about. This sort of behaviour underlines the reciprocity that the Web develops, with sites being a new sort of currency, able to confer status when a recommendation hits the mark. Like the film and music industries, web site owners will need to learn how to create a 'buzz' about their sites.

Advertising/referrals from traditional media

Just under half of users choose to visit a site because they have read about it in a

Figure 3.42 The types of advertising that prompt a visit to a site



Source: BMRB, Internet Monitor

magazine. The growing number of web review and listings magazines provide a quick and easy way for people to assess the suitability of sites and find out about 'what's new'. In addition, a growing number of non-specialist magazines and even newspapers are reviewing and suggesting web sites. Site recommendations in the press have a qualitative side to them that cannot be replicated by mechanistic search algorithms. For site owners getting this sort of media exposure is going to become more important in the future.

37% of users say that they choose web sites because they see them advertised – either on the Internet or in the 'traditional' media. It is the people who have greatest Internet experience who tend to notice the web addresses on advertisements – 42% of heavy Internet users choose a site because they have seen an advert, compared to 16% of light Internet users. For most new users, the www.xxxx.com that appears on a TV ad, poster or print ad does not register – it needs to be brought to their attention and explained.

The most effective advertising for web sites are print media – over half those who visit sites because they are advertised saw the ad in a newspaper or magazine. Adverts in computer magazines are also important, but will become less useful for advertising the general consumer sites as the user-base of the Internet becomes more mainstream – only 23% of women say that this sort advertising has affected them, compared to 46% of men.

Banner advertising

What is striking is that banner ads are not the most effective advertising medium for actually driving traffic into a site. Banner ads seem to prompt men more than women, the young more than the old, and C2DE rather than ABs. The heavy Internet user is also more likely than the light user to be affected by banner advertising – to click on the banner to visit the site. This suggests that users have to learn how to take advantage of this new type of advertising. It is not always obvious what a user has to do to a banner ad. Likewise, there are doubts about where it will take them and what the implication of going to the site might be. It might be that the banner, as a nascent medium, has yet to really come into its own – it is still in a very early stage of its development.

Banner advertisements are not thought of very highly among Internet users. 58% of users disagree that banner ads are interesting and a point to conversation and only 4% of users strongly agree. A third of users find them annoying (although a third do not) and almost 40% of users feel that they are devious. While many of these answers are to be expected – directly asking people about advertising in this way seldom elicits anything but negative opinion – it should not be written off. Banner advertising is intrusive in a way that other advertising cannot be accused of. In particular, it can increase download times – by being graphic-intensive or animated. In this way, the advertising medium becomes far more obvious than the message. Advertising on the Internet will have to develop a subtlety that it has so far seemed incapable of. The banner, interstitial and pop-up window are blunt instruments equivalent to early posters, sandwich boards or leaflets. The Internet as a creative advertising medium – one that uses its own characteristics – has yet to be developed.

The overall conclusion is that offline methods of driving traffic to a web site are should not be written off – the old-fashioned ways of advertising are still very important. For most companies, search engines present problems – they are the place that over 70% of users go to choose a site, but they have no control over whether their site ever sees the light of day in that process. This suggests that, as the number of web pages expands and the number of sites listed for every search increases, companies will find it more effective use traditional media as a vehicle for driving traffic to their sites.

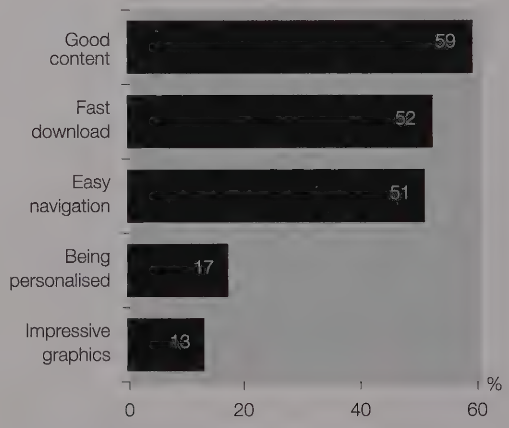
It is also important for companies to get their site into the virtuous circle that flows from of word-of-mouth recommendations. Their site should become a currency in the exchanges that take place between users. This depends on a site actually offering something new to the user – a currency has to be of something value.

What do people like and dislike about sites?

Content

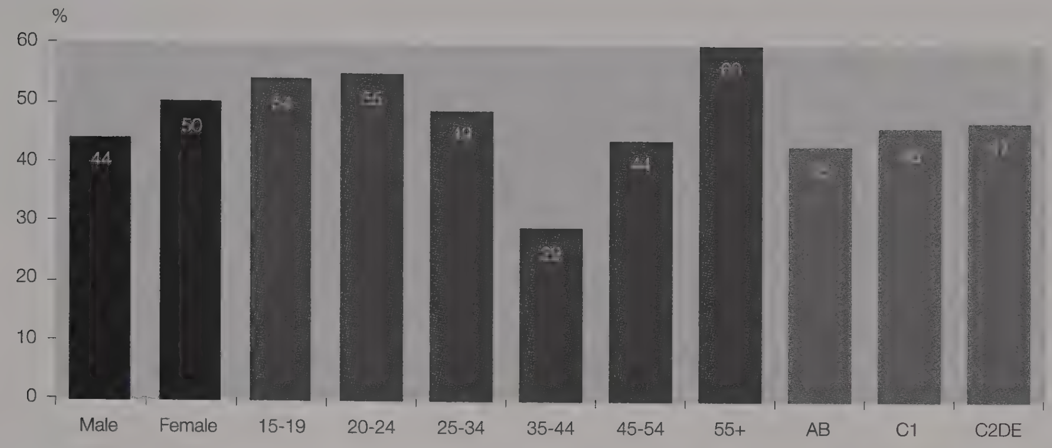
The aspect of a web site that users prize most highly is its content. This should come as absolutely no surprise, but just a quick glance across the Internet suggests that many web site developers didn't have it in mind when they created their sites. Some web sites are long on animated GIFS and Java pop-up windows and short on content. Such a strategy is misguided – only 17% of users think impressive graphics are important and 34% have surfed with the graphics turned off on their browser. On other sites, the content is often no more than 'brochureware'. This situation is still the case despite the mantra

Figure 3.43 The most important features of a web site



Source: BMRB, Internet Monitor

Figure 3.44 % saying registering has put them off using a Web site



Source: BMRB, Internet Monitor

'content is king' being on the lips of every web developer. The problem is that creating new and compelling content is an expensive business, and that keeping content fresh adds even more cost. The Web may decrease distribution costs, but massively increase content costs.

Download time and navigation

Alongside good content, an important feature of a web site is a fast download time, particularly for heavy users and home users (where the cost of phone times is an issue). Ease of site navigation is also important. Both these aspects are, in many ways, functions of the content – they relate to getting to the content quickly and efficiently. Faster download times are likely to become less important as the march of technological progress increases the available bandwidth and the compression of digital data. What will never go away is the importance of good site navigation. The Internet is essentially a medium of convenience, it is frustrating when poor design thwarts this. Design should not just consider how a page looks on the screen, but also how it comes down the pipe – design becomes an issue that impacts on distribution. Approximately half of all users will not wait more than a minute for a site to download – that is a very small window of opportunity.

Personalisation

Given the emphasis placed by web developers on personalisation and customisation, it is interesting that web users regard it as relatively unimportant. Even among heavy users, only 19% consider personalisation an important feature. Personalisation technologies, especially the more sophisticated ones, require some form of registration process, so that a profile of the user can be developed. However, around half of consumers say that registering for a web site has put them off using a site.

Given that convenience is an important part of what the Internet offers, it is not surprising that lengthy registration forms and password-protected sites are a turn-off. This is particularly the case if the site owner makes no attempt to demonstrate to the user the benefit they will gain by providing information. This issue is further developed in the 'Interactive Strategy: FAQs' chapter of *Media Futures 1999.*

Which types of sites do they visit?

Company and product sites

Most users of the Internet have, at some time, visited the web site of a company that they are interested in. The reason for this visit might be that the user is an existing customer and wants to find out more about the company. In the vast majority of cases, however, consumers visit a site because it might have products/ services that they are interested in buying.

54% of Internet users have visited a site that is related to a particular product. This indicates that the Internet is used to compare and contrast products. 48% of users also say that they use the Internet to source information about products they are interested in buying. In each case, the users tend to be aged between 25 and 44 years old, and tend to be heavier rather than lighter users of the Internet.

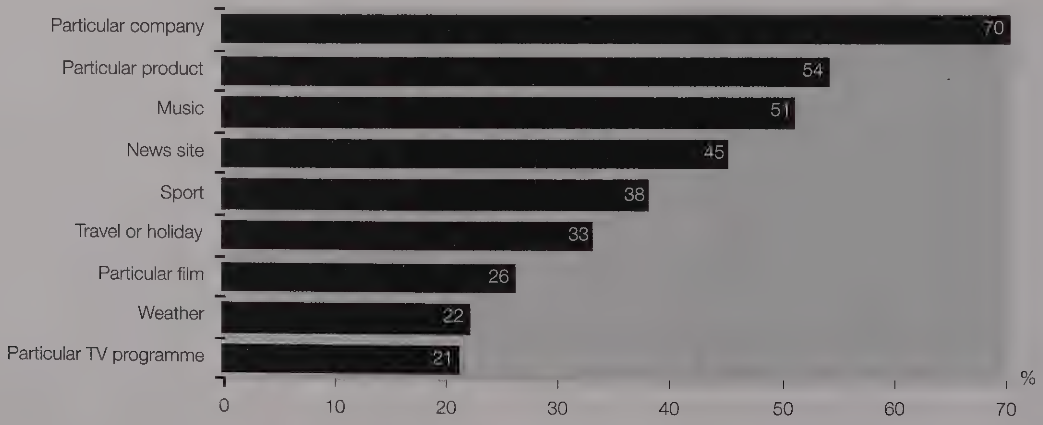
The use of the Internet to source information on products is confused by the fact that many Internet users wear two hats – they are consumers and they are workers. Among people who use the Internet exclusively from work, visiting company- and product-related web sites is slightly higher than the average, 82% and 59% respectively. In a work context, this sort of behaviour might be related to the need of the business to get a clearer picture of their competition or to source suppliers. Clearly, alongside consumer-based reasons, there are a whole host of business-related reasons for visiting commercial web sites.

News and weather sites

News and weather sites, a classic combination, are also popular destinations for Internet users. News sites are most popular among 25-34 years olds – 51% of them have visited a news site. Home-users, rather than work-users are also more frequent visitors of news sites.

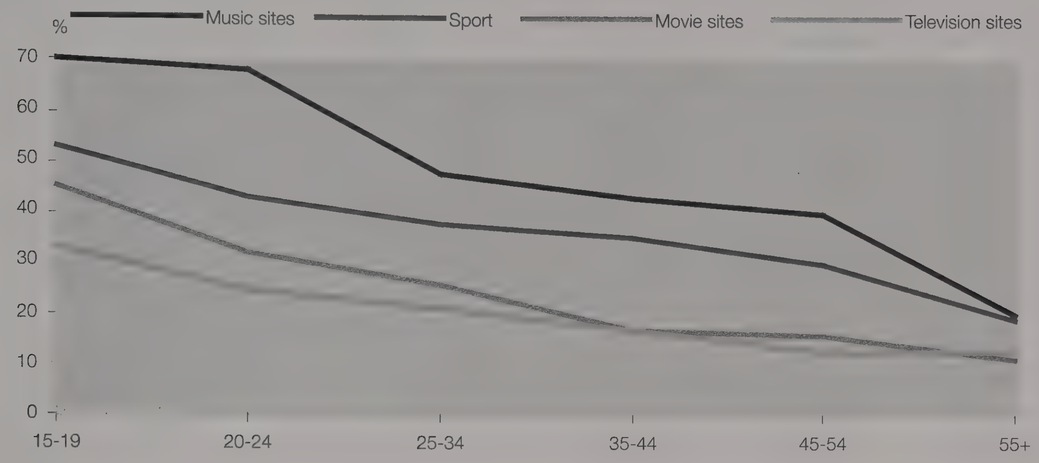
13% of Internet users say that they are reading newspapers less because they can get news on the Web. What is interesting is that 12% of 25-34 year olds say the same. This suggests that, although they are heavy users of news sites, this is not having a dramatic effect on their consumption of newspapers. Only 2% of Internet users have given up a

Figure 3.45 The sorts of sites that Internet users visit Which of these types of site have you ever visited?



Source: BMRB, Internet Monitor

Figure 3.46 Visitors to music, sport, film and television-related sites By age



Source: BMRB, Internet Monitor

newspaper all together – this rises to 3% among heavy Internet users. This is encouraging for the newspaper industry – there is no obvious trade-off between newspapers and news sites – which are often run by the newspapers themselves.

Entertainment

While the Internet is not considered as an entertainment medium in its own right, it does have a parasitic relationship with entertainment-driven media – film, television and music for instance. The Internet is full of official and unofficial sites about stars, TV programmes, movies and bands. After e-mail was first developed, a discussion list about science fiction books and films quickly followed. As we saw in the chapter on 'The Attention Economy', time spent on the media accounts for 30% of a person's daily life. It is hardly surprising that people are so interested in it!

Sites about music, films and individual television programmes are popular destinations for the Internet users – this is particularly true of the younger user. The ability to get the latest star gossip, download video or audio clips and find others who share similar tastes and interests is an incredibly powerful dimension to the Internet. It is in this area that the synergies between the Web and other media become most obvious.

Sport is another area where there is a strong fan culture. Sites with sports news and information are among those with the highest rate of return among Internet users. As results come in, sports fan visit the site – sport has a narrative, like a soap opera, which brings people back week after week to see what has happened.

The Internet is a world of fan culture – where people indulge their likes and dislikes. The consumers themselves, without prompting from media owners or content owners, have turned the Internet into a celebration of their interests and passions. This is leading to the formation of virtual communities of interest – a theme that is further developed in the 'Marketing and communities' chapter of *Media Futures 1999*.

What do people do on the Web?

Downloading and uploading

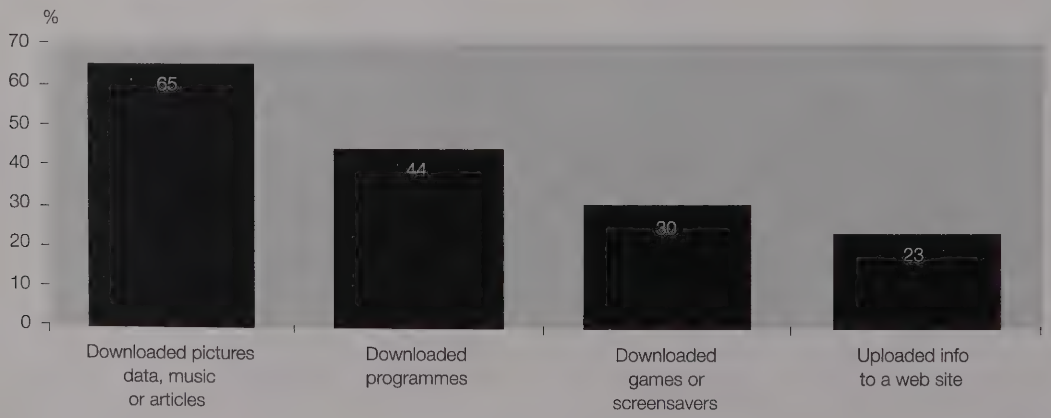
People do a lot of downloading from the Internet. The most popular downloading is of other media – bits of music, clips of video, pictures or articles. There is a magpie mentality that overtakes Internet users. They gather things that are scattered about the Internet – things that catch their eye – and bring them down to sit on their hard drive. The equivalent to the bright and shiny objects that magpies collect for the Internet user are the things that are to do with their own interests, passions and fan enthusiasms.

The Internet brings out the collector in every one. The average PC, in the work place or the home, is beginning to resemble a teenager's bedroom rather than a state of the art piece of technology! People are customising and decorating their desktop with pictures and sounds that reflect their own personal tastes. For example, people can now close-down their PC to the voice of Inspector Regan of The Sweeney exclaiming "*You're nicked!*"; or they might have Cameron Diaz or Ewan McGregor staring back at them as a tablecloth over their desktop. Neither gender nor class affects the popularity of this kind of downloading.

It is mainly younger users that download material from the Web – 71% of 15-19 year olds are downloading compared to 53% of 45-54 year olds and 39% of the over 55s. However, even among the over 45s downloading never slips below the second most performed activity. (These figures are put in context by the fact that 67% of Internet users have a PC that can play sound clips and 68% have one that can play video clips.) The popularity of screensavers reinforces the point about younger people downloading – 15% of the over 55s have downloaded a screensaver or a game, compared to 42% of 15-19 year olds. Downloading games and screensavers is more of a male and C2DE activity than a female AB one.

The Internet will cause congestion on hard-drives as they become full of the momentos of a web journey. While some of the downloaded

Figure 3.47 Downloading and uploading "Which have you ever done in the last 3 months?" % agreeing



Source: BMRB, Internet Monitor

items will be kept and treasured most will end up like television programmes videoed at home – taking up space and never used. But, their significance only partly lies their use – it is important that the user feels that their momentos are there if they want them.

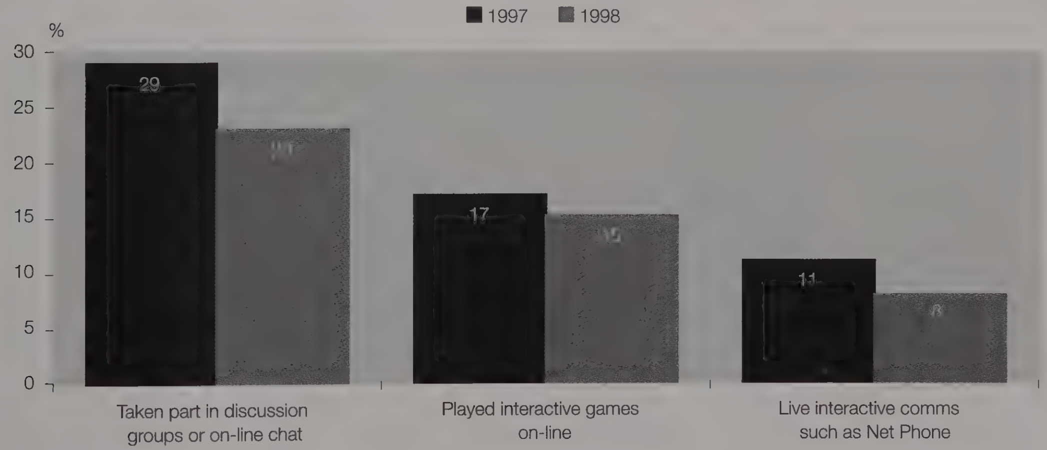
Only 23% of Internet users say that they have uploaded information onto a web site. For the majority, this means they have developed their own web pages. (This is what most uploading is done for.) There is very little difference between those who upload in terms of age, gender or class. The people who do most of the uploading on the Web are heavy Internet users. In 1997, 7% of Internet users had their own web pages and a further 24% of users who did not have their own home page said that they would like to create one in the next 12 months. Of that 24%, the number of users who said that they were very or quite likely to do so was 67%. What is interesting is that there was a greater degree of interest among women, older and AB users than other demographic groups.

Interacting, chatting and discussing

While figure 3.48 might suggest that Internet users have been using on-line chat, on-line games or live communications technologies less over the last two years, this is not actually the case. As the number of Internet users rises, so these figures represent larger and larger 'slices of the pie' – 20% of 1,000 represents a greater absolute number than 20% of 100. What is happening is that people are not adopting the services available for interacting and chatting with other users quite as fast as people are adopting the Internet overall.

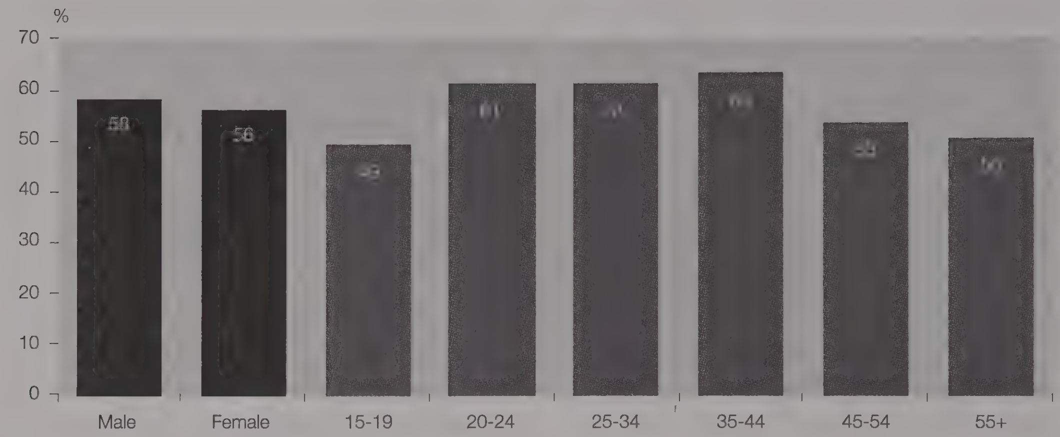
Chatting, interacting and discussing tends to be done by men more than women and C2DE users (which includes students) than AB or C1 classes. It is age that makes the biggest difference to the use of this types of service, however – it the very young over the moderately young who are most likely to be users. 43% of 15-19 year olds have taken part in on-line chat compared to 24% of 20-24 year olds. The same trend is true of on-line game playing. This also explains why these activities

Figure 3.48 Interacting, chatting and discussing Which have you ever done in the last 3 months?



Source: BMRB, Internet Monitor

Figure 3.49 The Internet brings out the Dr Livingstone in us % exploring the Net



Source: BMRB, Internet Monitor

are done more from home or college than the work place.

Exploring

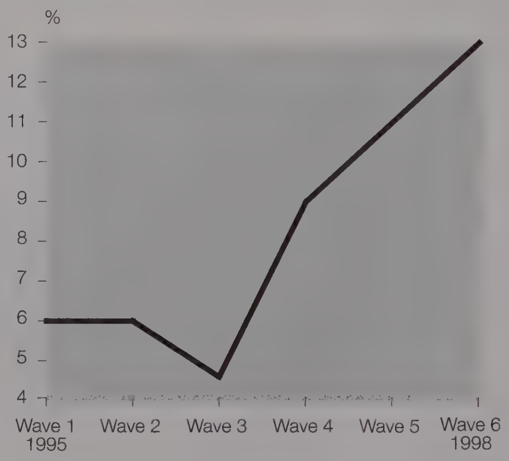
The second most popular activity among Internet users is 'exploring the Internet to get an idea of the opportunities it offers'. 56% of all Internet users say that this is something that they have done – some might call this 'just surfing the net'. It is the archetypal Internet activity – it involves clicking on link after link and following a trail, going where your interests take you. This type of behaviour illustrates a side of the Internet that appeals to curiosity – every click could open an new avenue of interest or Pandora's box. It is older and more experienced users who tend to set out exploring – 78% of people who have the Internet at home and work do this.

Buying

13% of users have bought a service or product over the Internet. The number of people buying over the Internet has been increasing steadily over time. While the use of the Internet as a transactional medium is one of its most exciting characteristics for businesses, for most users that excitement has yet to be shared. The figures for on-line shopping relate to the numbers of people who have bought something over a six-month period. Thus, respondents who have said that they have not bought anything could have been shopping on-line, but longer ago than six months.

Men are more likely to use the Internet to shop than women (16% of men compared to 9% of women), and, not surprisingly, ABC1 users shop more on-line than C2DE users.

Figure 3.50 Increasing numbers are buying on-line



Source: BMRB, Internet Monitor

However, it should not be assumed that only the most upmarket users are buying things on-line – 45% of the people who have shopped on-line are from class C1 compared to 35% who are ABs. Age makes the biggest difference as to whether a user will start to shop on-line – 5% of 15-19 olds have bought something, compared to 19% of the over 45s.

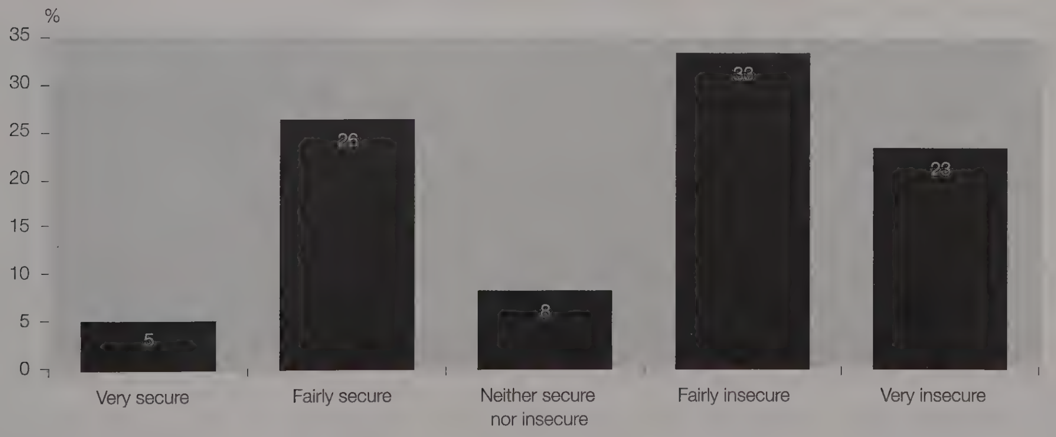
26% of people who use the Internet at home and work have bought something on-line in the last six months. This compares to 21% of people who use the Internet only at home and 13% who use it only at work. It is worth noting that the home-user is not the only type of user who is shopping on-line. There is an enormous opportunity to target people who are using the Internet at work, something that has historically been difficult using the traditional media.

Using the Internet at work to buy things for personal rather than work-related reasons raises all sorts of potential hazards and constraints. The biggest single issue will be the danger of spending too much time surfing and shopping and less time working and being productive! The sensible user, who does not want to incur the wrath of their employer, will only allow themselves a short window to use the Internet at work. This means that speed and efficiency will be at a premium.

More than anything else, it is overall experience of the Internet that drives users to adopt the Web as a transactional medium – 25% of heavy users have bought something on-line, compared to 10% of medium users and 2% of light users. 95% of all on-line shoppers are either heavy or medium Internet users (53% heavy and 42% medium).

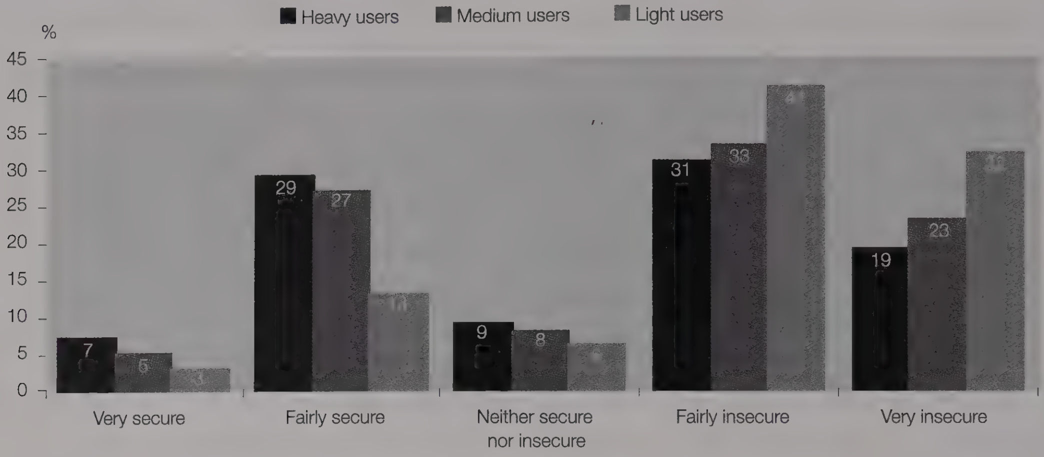
The fact that experience and confidence online encourages transactional behaviour is interesting in light of the fact that the main reason why consumers shy away from conducting transactions is fears about security. A third of the respondents to BMRB's Internet Monitor are wary about putting their credit card details onto the Web. Another factor that might be expected to play on consumers' minds when making an on-line purchase is whether their delivery might go astray. We found that this isn't a significant factor today.

Figure 3.51 Security fears are still a significant concern



Source: BMRB, Internet Monitor

Figure 3.52 Concerns about security reduce with experience How secure do you think usage of your credit card on the Internet would be?



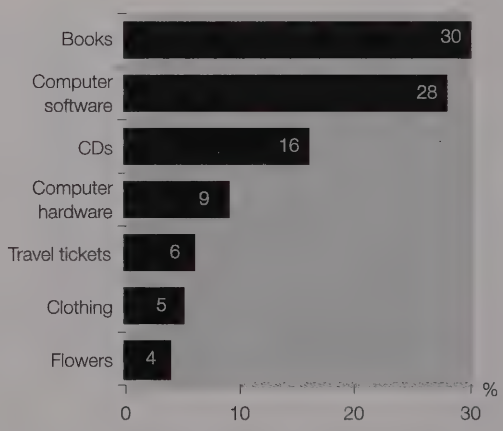
Source: BMRB, Internet Monitor

Concerns about security reduce as users gain experience of the Web. It is through experience that users build up enough trust in the Web to try it as a transactions medium. This suggests that, more important than developing complex security algorithms, is the need to encourage new and light users to come back to the Web and try new services.

Another factor that may encourage consumers to take the leap into transacting is the presence of a familiar, trusted brand on-line. This hypothesis should not be taken too far, however. In general terms, brand trust is more likely to determine *who* someone transacts with, rather than whether they transact at all. At the end of the day, The Henley Centre believes that it is the experience and confidence gained from using the Internet over a period of time that will be the most important factor in determining whether someone is transacting on-line.

The most popular items currently bought on-line are computer software and books. This is largely determined by the limited range of goods and services that are currently available on-line and the characteristics of the today's on-line transactors. Thus, it should also come of no surprise that a greater proportion of ABC1 users are buying software and books that C2DEs; or that more men than women buy computer software (32% of male shoppers compared to 20% of women). Perhaps more interesting is that fact that books are bought on-line by a greater proportion of female users (35% of women compared to 27% of men). The age profile is also different – broadly speaking, younger Internet users buy books, and older users buy computer software.

Figure 3.53 What are people buying on-line – the top items What have you bought in the past?



Source: BMRB, Internet Monitor

As the Internet develops, more users will start using it for transactions, and more companies will embrace its capabilities as a distribution medium. This will broaden the range of products and services offered and bought on-line and dramatically increase the level of transactions carried out on the Internet. We deal with this issue in the next section of *Media Futures 1999*, aptly called: 'How will the Internet be used in the future?'.

3.4 How will the Internet be used in the future?

Introduction

Place of use

The Internet can be accessed from the home, but also from a number of places outside the home – work, school, cyber-café, a friend's house etc. In this section, the core of our analysis concerns home-based use of the Internet, both now and in the future. We do not exclude out-of-home usage; however, this is always seen in the context of home-based usage.

To forecast the future growth of home-based Internet access, it is important to understand the process that leads to Internet adoption in the home. In previous studies, it has been found that two of the most important drivers of adoption are 'trialability' and 'observability'. Prior-to- purchase, consumers must have opportunities to see and use a technology in order to decide how relevant it is to them. At first, they become aware of the technology – they observe it, perhaps as a new concept on the television, in conversation or in print. Then they start to see it in the 'flesh' around them. Once it is put within their grasp, they start to gather the courage to have a go – they trial it. Common sense dictates that the more consumers feel surrounded by a new technology in the media and in their everyday lives, the more likely they are to trial it. It is then that the process of adoption and use really begins.

Bystanders, Users and Transactors

The fact that the Internet is *available* in a household does not mean that *every* member of the household is an avid surfer. In a single household, there may be four people who have access to the Internet. Of these four, one might be a user and the other three might be bystanders. Likewise, an entire office might have Internet access, but only a small proportion might actually use the technology available. In this respect, the Internet population can grow, without much additional hardware being sold, through bystanders becoming users.

To understand the future use of the Internet, we introduce a three-tier consumer classification based on their relationship to the Internet. The three tiers are Bystanders, Users and Transactors. Bystanders are people who have access to the Internet at home (or outside the home), but have so far chosen not to personally use it. They are still at the observing stage rather than the trialling stage.

As common sense would suggest, Users personally use the Internet at home or outside the home. They might use it exclusively for e-mail, for surfing the Web or a combination of both activities. They might use it a lot or not very much, the point about Users is that they have moved beyond trialling the Internet – they have adopted the Internet.

Finally, there are Transactors, a subset of Users. Transactors are actually buying goods and services on-line. They use the Internet to its full potential, and are comfortable with the culture of the Internet. We could call this group true Netizens.

The Media Future's interactive segmentation

Earlier in this chapter, a five-part segmentation of current and potential Internet users was introduced. The five segments were: @home, @ll, Ne@rly, M@ybe and Not @ll. The @home and the @ll groups are already using the Internet – from home (and possibly from outside of the home) in the case of the @home segment and exclusively from outside the home for the @ll group. These two groups are the Users and Transactors of the Internet. The other three groups have never used the Internet, but have differing degrees of experience, use and confidence with other digital interactive media. These groups may be Bystanders or they may only have heard about the Internet via the media. Of the three, it is the Ne@rlys who have the greatest likelihood of becoming Internet users in the future. They are a key group to understand, as they will make up the next and largest wave of Internet users.

The PC is the limit

Growth of PCs in the home

The PC is central to the future of Internet access over the next five years. While there will be non-PC access platforms (such as WebTV and mobile devices), these technologies will tend to be bought by people who already have a PC at home. Thus, within the forecast period for *Media Futures* (to 2003), the number of PCs in UK homes will set the upper-limit on home-based Internet access. The PC will also be the core platform for Internet access outside the home. The first step in looking at the future direction of Internet use is, therefore, to look at the growth of PC ownership.

The Henley Centre believes that there will not be a 'mass consumer' market for Personal Computers. A market that is not mass can be defined as one that passes from the *innovator* segment of consumers – the first 2% of adopters, into the *early adopter* segment – up to 18% of adopters, into the *early majority* – up to 50%, but then not (or not significantly) into the *late majority* – up to 82% of consumers or the *laggards* – from 82% up to 100%. This cap on PC growth is because:

- The primary use of PCs is in the workplace and consumers who have access to a PC at work often do not need one at home.

- Many consumers are computer illiterate and will remain so, as they do not need to use a PC for their work – and there are still relatively few compelling reasons why someone should buy a PC for non-work reasons.

- The PC is a very expensive piece of hardware for the extra benefits that it brings over and above workplace applications. Even with falling prices it still remains a big-ticket item.

- For most families there are other more important products competing for limited budgets. A holiday, new sofa or car – the stuff of everyday life – is given greater priority in a purchase hierarchy.

- The process of buying a personal computer seems fraught with difficulty. The product lines change rapidly, product features are explained in jargon and product benefits are often defined in terms of product features. For a lot of people the how, why, what, where, and which of computer buying is a complete mystery.

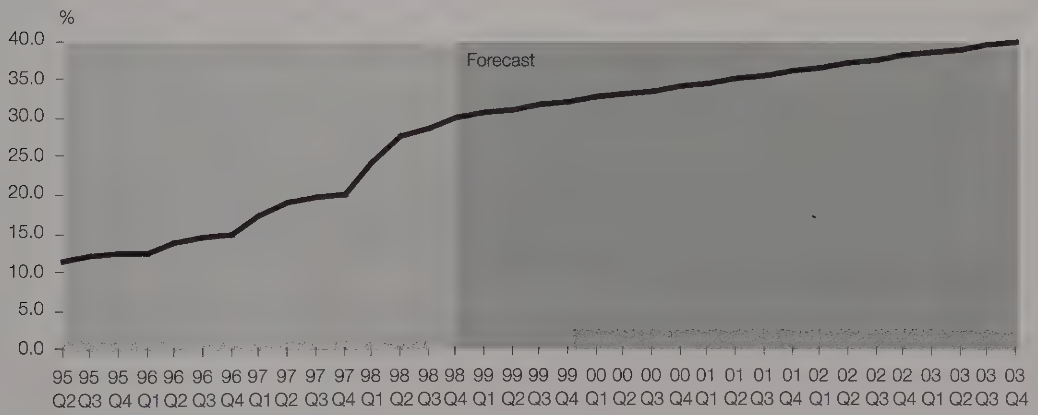
The number of PCs in UK homes is a difficult thing to measure. The hundreds of different brands, formats and configurations that have been launched over the last 20 years mean there is a ragbag collection of computer hardware in people's homes. In *Planning For Social Change 1998,* The Henley Centre mapped out the state of the UK PC nation. Since the late 1980s, there has been a massive demographic swing in PC ownership – from C2 households towards AB households. This has set the tone of PC ownership over the last 10 years. The price of computers has dramatically increased over the last 15 years: 15 years ago a computer cost the equivalent today of £500, today they cost between £1000 and £1500. While PC performance has increased many times over during this time frame, it is the increase in price rather than the improved performance that most consumers fix upon.

Rather than analyse overall computer penetration (which would include the Sinclair's, Amstrads and Amigas of this world), we examine the penetration of modern PCs (mainly Wintel - Intel x86 microprocessor and Microsoft's Windows operating system, and the odd Apple). This definition is preferred as it captures computers capable of accessing and using the Internet to its full.

Modern PC s have moved from being in about 10% of homes at the beginning of 1995, to 30% at the end of 1998. At first sight, this growth seems very strong; however, most of it has been absorbed into existing computer-owning households through the replacement cycle. By 2001, The Henley Centre forecasts there will be a PC in 36% of homes, and in 40% of homes by the year 2003. The growth will continue to be in ABC1 households and among young and middle-aged consumers.

According to the research conducted for *Media Futures 1999,* 54% of AB homes have a PC, as do 34% of C1 homes. Over 70% of all computers are in ABC1 homes – which represent far less than 50% of the population. Work continues to be the primary reason for PC ownership and will continue to do so in the future. Towards the end of the forecast

Figure 3.54 Growth in PC ownership by household 1995-2003



Source: The Henley Centre, Media Futures 1999

period, however, it is possible that Internet access itself will become a trigger for PC ownership.

The fact that under 50% of UK homes will be potential Internet households by 2003 suggests that, for the Internet to become a mass-market technology, it will need to find other routes into the home. In *Media Futures 1997*, The Henley Centre was bullish about the long-term potential of Internet appliances that we christened 'toasters'. Toasters are application-specific devices, which can be stand alone or incorporated into other consumer electronic products. While The Henley Centre is still positive about the potential for toasters, they are unlikely to make a significant impact within the next five years.

A host of alternatives

With the PC unable to capture more than 50% of homes within our forecast period and beyond, the wider diffusion of the Internet will have to happen on the back of other technologies. Widespread access will depend on a patchwork quilt of technologies – made up of cloth of differing quantities and qualities. Below we briefly describe the alternatives.

Network computers

While the price of the network computer was flagged up at $500, when Larry Ellison of Oracle launched the project on the world, costs are still relatively high. Network computers never cost as little as they were billed to - the IBM Series 1000 costs $999 and the NeoWare NeoStation costs $599. Like the vast majority of network computers, neither come with monitors; they are both aimed at the business sector, are Java compliant, and still require expertise to install. Dataquest predicts that 2.4 million will be sold worldwide in the year 2000, a figure that seems small compared to the forecast of 130m PCs shipped in the same year.

The idea of the Network Computer has resonance with the business community and sales are starting to pick up. Network computers will start to replace PCs, but only in those segments of the IT market where the use of a PC is over-kill in terms of performance and power. Examples would be script-prompt and data-input devices in call centres or as smarter cash registers in retail outlets. It could be argued that this also makes them suitable for the home – as PCs are often just 'too much' for most consumers – but NCs currently do not have the multimedia functions (graphics, sound, video) that would make them suitable for the consumer market. The processing power needed to run multimedia is huge, as well as the extra interfaces and output devices (ie, speakers, CD-ROM drives and higher resolution monitors). These factors would make the NC in its current form an unlikely consumer appliance.

TV computer

Internet devices

The TV computer is similar to the NC, but it is much more targeted at the consumer market. These computers fall into three basic groupings - the Internet device, on-line gaming devices and full-on PC/TV devices. Their prices range from the $100 mark right up to $3000 or $4000.

The Internet device is something like WebTV or NetChannel; it plugs into the TV, has a modem connection and aims to offer web access and e-mail. Internet devices are currently being repositioned as devices that enhance TV broadcasts by offering value-added services as well as normal web access. WebTV is currently implementing a strategy that turns the NC concept on its head: it is arguing that the cost of data storage is declining at such a rate that it will soon be possible to download a whole week's programmes and keep them on the WebTV hard drive. Thus, rather than remote storage, everything is stored locally – reducing access times and enabling greater interactivity. The content could be downloaded overnight. If we use the analogy that the Network computer is like an information central heating system, then the Internet device is akin to a storage heater.

Sales of Internet devices are still relatively small, but WebTV's position has been bolstered by its relationship with Microsoft. Microsoft sees WebTV as a strategic entry point into the world of television. It is a door that others have so far found very hard to open. At Easter, WebTV claimed it had 300,000 US subscribers and it was on track for a million by year-end 1998. In the UK, WebTV is currently engaged in trials with the BBC and BT.

Games consoles

The games console industry – ie, Sony, Sega and Nintendo – is hurriedly adding networking features to its next-generation consoles. Sony has already launched the PlayStation Yaroze, which is web-compatible. Sega is making much of the fact that its next console system, the DreamQuest, will be co-developed with Microsoft and come with Windows CE (which means that it can utilise many Microsoft standards and applications). These companies are looking to extend their product range through on-line gaming (which is proving very popular) and to develop communities of players on the Web as a loyalty strategy.

Games consoles may start at the $200-$300 mark, but they rapidly reduce in price, to the $100 mark, as the systems compete for market share. Games consoles have proven a lucrative business, but there are limitations to their market as it is made up mainly of boys/young men. Manufacturers see an opportunity to extend their reach outside the games market ghetto by turning the console into an information appliance. Sega has stated this as an aim with the launch of its new machine later this year. Needless to say, networked games consoles open up the possibility of multi-player games really kicking off. So far, networked video gaming has failed to deliver on its obvious promise. The constraints are mainly technical: the enormous bandwidth needed to make sure that game playing is not interrupted by downloads means that network infrastructure needs beefing up. The track record of game consoles as network-access devices has so far disappointed. It is a good idea that has so far failed to find its time.

PC/TV

The PC/TV is a monster product that costs between $2,000 and $6,000. Examples are Gateway 2000s Destination and NetTVs World Vision 2900. They come with massive screens, top-of-the- range Intel processors and optional Internet access. They provide an interesting way to utilise both DVD-Video and DVD-ROM on the same platform without compromising screen quality. It is the screen that is the selling point – and also the piece of technology that increases the price so significantly. These machines will have a limited market as they are far too pricey – they are the PC version of home cinema.

Information appliances

Most of the 3.6 billion chips sold last year did not end up in computers but in embedded processors – small single-purpose, but smart chips. The devices to which these chips are added range from things such as 3COM's Palm Pilot (a hand-held computer that sold a million units in less than a year), to screen phones or Tamagotchis (which sold 14.5 million overall worldwide, some of which are now network compatible).

The mantra of the toaster is that single-function devices will work better than multi-function ones. The principle is that the technology should adapt to meet the requirements of the user, rather than, as with the PC, the user having to adapt to meet the requirements of the technology. But the trade-off is between a PC that has the power and flexibility to do many things to a particular standard, and a toaster that can do only one or two things brilliantly.

It is this type of technology that holds the greatest promise for the future. Their incorporation into existing consumer electronics technologies adds value to products with which consumers are already very familiar. It also allows devices to be made that offer consumers the particular Internet application and services that they want, without having to deal with those that they don't want. This is the Lego approach to Internet access.

Info appliances are being developed by AT&T, Goldstar, NEC, Panasonic, Samsung, Sharp and Zenith. Currently toaster-type devices retail for less than $300, although there are relatively few on the market – these devices tend to be screen phones and combined e-mail and telephone sets. That said, The Henley Centre expects some of the first and most creative uses of this kind of technology will be in the toy market.

The Knowledge Lab, a NCR research centre, launched a concept product called the Microwave Bank in mid 1998. The Microwave Bank allowed computing, banking and shopping services to be located in the humble microwave. While it is a concept product it shows an important trend in Internet access. This is point is exemplified by a statement by the director of the Knowledge Lab, Stephen Emmett:

"There is already significant computing power located in everything from microwaves and washing machines to cars and phones. Eventually, all appliances will be connected to each other and the Internet".

It is helpful to think of toaster technology now as akin to electric motor technology in the early 1920s. Electric motors transformed the home by allowing mechanical 'muscle' to take the effort out of many household tasks. Toaster technology adds 'smartness' to standard household technologies by plugging them into a communications network in the same way that the motor had to be connected to the national grid. At first, a motor was sold as a standalone device which came with a variety of attachments – fans, beaters, mixers, buffers, sewing machines etc. – over time, each of the attachments (or applications) became the central product and the motor became invisible inside them. It is this process that The Henley Centre is predicting will happen to toaster technology – slowly embedding itself in the whole range of white and brown goods.

Distributed computers

Once normal white and brown goods become information appliances, through the addition of embedded microprocessors that give them their 'intelligence', then something is needed to control and manage these devices. The idea of the distributed computer is that it acts as the command and control centre of the home, tying together and feeding information and instructions to the other devices in the home. These computers have been nicknamed 'information furnaces' and 'information fuse-boxes', as they are thought to be backroom technologies analogous to that 'box under the stairs'. But, a distributed computer is a PC with some added hardware – this puts it in a completely different cost league from the humble fuse box.

The key standard that is being promoted in this area is the Consumer Electronics Bus or CEBus (but there are other such as X-10, the oldest standard, and LonWorks) which have the backing of 200 companies including Compaq, Intel, Microsoft and Honeywell. This technology uses embedded chips in each appliance to communicate with each other through the mains system. While the CEBus standard has been around for 10 years, it is not likely to become a feature in most consumer electronics products until 2000 or 2001. The transition to digital – DVD, D-VHS, Set Top Boxes – will be a major driver in its uptake. Currently, the biggest users of CEBus standard technology are the home security and lighting sectors (a smart dimmer switch costs around $100). The onset of digital technologies will not mean that people throw out their existing hardware – instead, there will be a slow but steady diffusion based on the replacement cycle of these products.

The distributed computer has been placed at the forefront of Compaq's consumer strategy. The company sees the proliferation of information devices as a way to position the PC as a central control room. It also sees the PC as the gateway to co-ordinating communications external to the home as well as internal to it. This would mean that CEBus technologies could be controlled from remote locations and could also receive information from manufacturers or service companies directly. It would also reduce the need to have multiple phone lines, as the Compaq 'Home Server' would push traffic in and out of the home through a single point. Energy management is also a core service that Compaq is promoting, as the CEBus allows very detailed tracking of per-plug/socket energy consumption.

Distributed computing is basically a way of adding extra value to existing products. It will make a difference at the margins as PC owners realise that their other appliances can be plugged to their existing PC. The growth of distributed computers is very unlikely to drive PC uptake significantly as all the same rules about PC ownership still apply. But, the eventual proliferation of toasters throughout the home will drive the uptake of 'home servers' and 'home area networks'. In this respect, the distributed computer is a 'sleeper technology'.

Consumer PCs

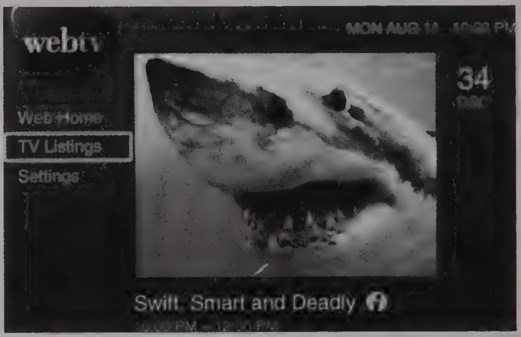
The pressure on PC manufacturers to reduce prices has being growing over the last 18 months. Now there are many PCs on the market from Compaq, Hewlett Packard, Toshiba and others at under $1,000. In the short term, the reduction in price has been enabled by the collapse of chip prices on the world market (partly due to the collapse of the Asian economy, but mainly due to massive over-production). In the longer term, semiconductor manufacturers such as AMD and Cyrix have been aggressively targeting the cheaper end of the market. This has pushed Intel (which has a stranglehold over the market) to respond with a series of specially designed products. The end result of this downward spiral in prices will be a low-end PC that has a price of between $500 and $700 (without a monitor and with lower-end performance).

The new family of low-price Pentium II processors that Intel is shipping this year will change the face of computing. Not only will they hit the $150-$200 price point (which will be cheap enough to allow manufacturers to keep their margins on PCs at under $1,000), they are also the first generation of chips to include 'smart integration' technology. Smart integration means that previously discrete components in a PC can be combined together on a single piece of silicon. This drastically reduces the cost of production as CPU, memory and multimedia systems can all be combined. This technology will impact the PC market first, but it will have a knock-on effect on all the other parts of the IT industry – games consoles, network computers and info appliances. Despite this, the overall problem of the PC industry will remain: computers are primarily work-oriented and are difficult to position as a family entertainment device.

From the retail side of the picture, the decision made by some large supermarkets to start selling consumer PCs will have some impact. Supermarkets have seen that most PCs for sale in the UK are overpriced and feel that there is an opportunity in promoting 'fair price' computing for consumers. Intel has shown some disquiet with the retail pricing of PCs and is putting pressure on the high street to adjust prices downwards. While this will make some difference, it will not be enough to create universal or near universal computer ownership in the UK.

WebTV – some interest?

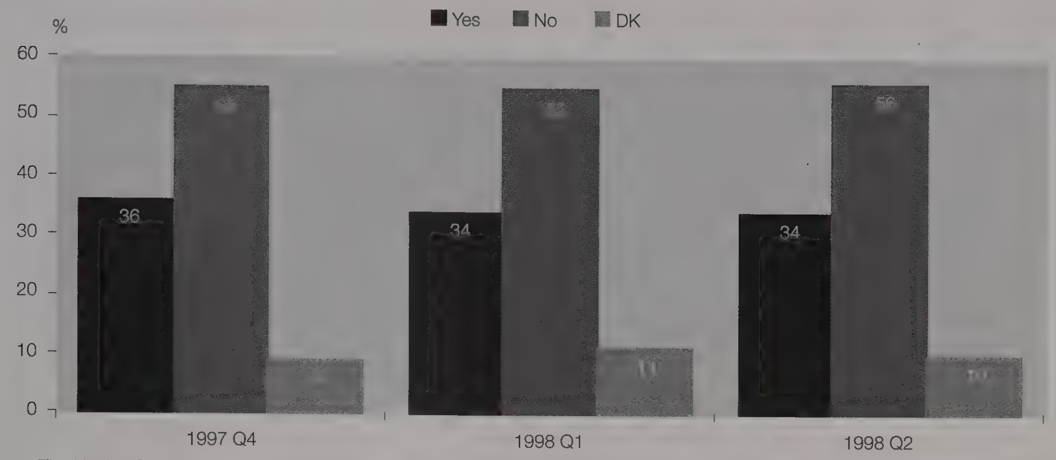
It is very difficult to gauge consumer response to technologies that they have yet to see or hear of. The Henley Centre has asked consumers a tracking question on WebTV style services and products through 1998. Respondents, when asked if they would be interested in purchasing a product that allowed them to surf the Internet through the television, gave remarkably consistent results each time.



Roughly a third of consumers are interested in a WebTV style of service and a further 10% are unsure. Around 55% of consumers reject the idea. 47% of people with a PC and a modem in their homes said that they would be interested in such a product compared to 29% of people who do not have a computer at all. But, of all the people who said that they would be interested, 77% came from the group of people that has no PC at home. 52% of those who have the Internet at work but not at home and 60% of those who use it exclusively in their educational establishment would be interested in WebTV. Again, the bulk of potential WebTV users come from the novice group – 61% of those people who said yes to interest in WebTV had never used the Internet.

Clearly there is interest in an Internet product that works through existing television technology. This interest is not confined to

Figure 3.55 Proportion of people interested in WebTV



Source: The Henley Centre, Media Futures 1999

existing home Internet subscribers. WebTV could easily be used by a group of people that has grown into the Internet outside the home, and wants a cheaper and more accessible way of bringing net access into the home. The most interest comes from those who are not PC owners or Internet-literate. Past research by The Henley Centre has shown that, despite professed enthusiasm for a technology, people who have very little experience of that technology are ultimately far less likely to purchase. They have to gain a little bit more hands-on experience before committing. That said, a low entry price could reduce the barrier significantly.

There is interest in a WebTV-style of device. An e-mail service would be crucial to its success, as well as the gathering together of a strong enough set of content partners who could build on the synergies between the Web and TV. In a best case scenario, WebTV will increase the numbers of people who have access to the Internet, but the experience of the American market would suggest that building the number of users takes far longer than first thought.

Internet on the go – a way forward?

The mobile phone and the electronic organiser/palmtop are another way that Internet access might spread to a wide population. At the beginning of 1995, mobile phone and electronic organiser penetration stood at 5% for both technologies. At the end of 1998, the penetration has risen to 34% for mobile phones and 13% for electronic organisers. Both these technologies have the potential to offer Internet access to their users, albeit in a much more limited capacity than through a PC. Devices such as the Nokia 9000, which combines both technologies, and was launched a few years ago, clearly highlights this potential. The announced alliance between Psion, the palmtop manufacturer, and the mobile-phone

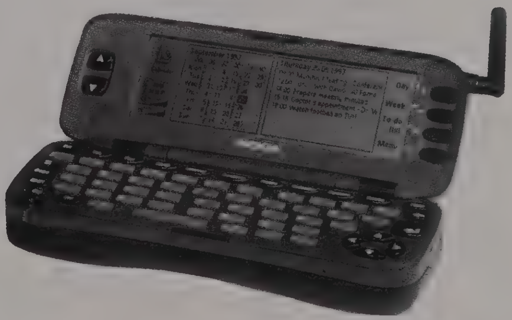
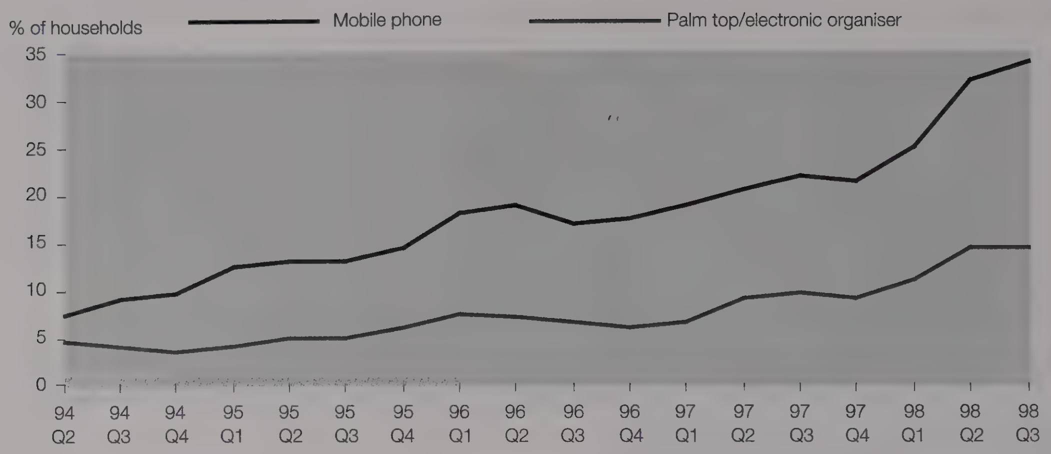


Figure 3.56 Growth in mobile platforms 1994-1998



Source: The Henley Centre, Media Futures 1999

manufacturers Nokia, Ericsson and Motorola will no doubt speed up the process of palmtop–mobile phone integration. Microsoft is also planning a range of integrated palmtop–mobile phones.

In Scandinavia a number of mobile telephone operators have been trialling technologies that allow mobile phones access to a home banking service over the Internet. Consumers can call up bank statements and make simple transactions. The Short Messaging Services (text-based messages a bit like pager messages) that come with many mobile phone systems have also been used to distribute sporting, political and financial news from the Web directly to mobile-phone handsets. This sort of service could also be offered on pager systems. The ability to send e-mail messages over the Internet to a specific handset is currently possible, but yet to be made available by the network operators.

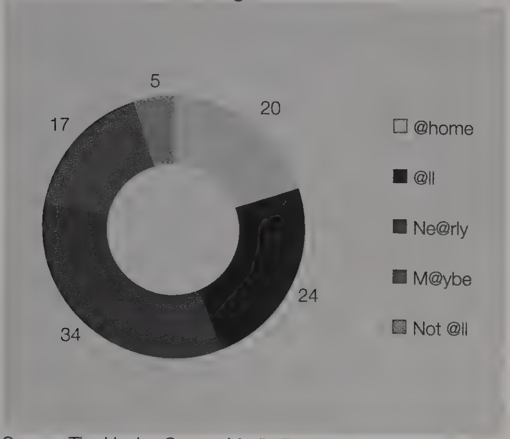
The networking of these types of mobile devices allows a better concept of an electronic wallet to be developed. A whole host of messaging, time-management and financial-service applications could be contained within a single portable device. E-cash could be downloaded onto the device and then spent through this new type of e-wallet.

The growth in portable devices has opened up a number of opportunities for broadening Internet access. The use of these devices will occur as Internet access allows the bundling of value-added services to protect the margins on a business that is rapidly commodifying. From a consumer perspective, the addition of Internet-based services increases the functionality and flexibility of a set of devices they already own and use.

PC ownership among the five segments

The reach of PCs into the home is total among the @home segment and as low as 6% among the Not @lls. The key group, the Ne@rlys, have PC penetration running at 44% in terms of reach, but this group also has the largest share of computers in UK homes. Of all computers owned in the UK, 34% are in Ne@rly homes, compared to 20% for the @home group. The Ne@rly group tends to have older and less powerful computers compared to those in @home or @ll homes.

Figure 3.57 Share of PCs in UK homes across the 5 interactive consumer segments



Source: The Henley Centre, Media Futures 1999

This suggests that they are potentially more likely to upgrade and step into the @home category. 26% of the Ne@rly segment plan to upgrade or buy a PC for the first time over the next three years (they represent over a third of all people who said they were going to buy a PC over the next year).

PC penetration is above average in all the groups apart from the M@ybes and the Not @lls. In this respect, the move to Internet access into the home of the @lls and the Ne@rlys is not a great as one might have first assumed.

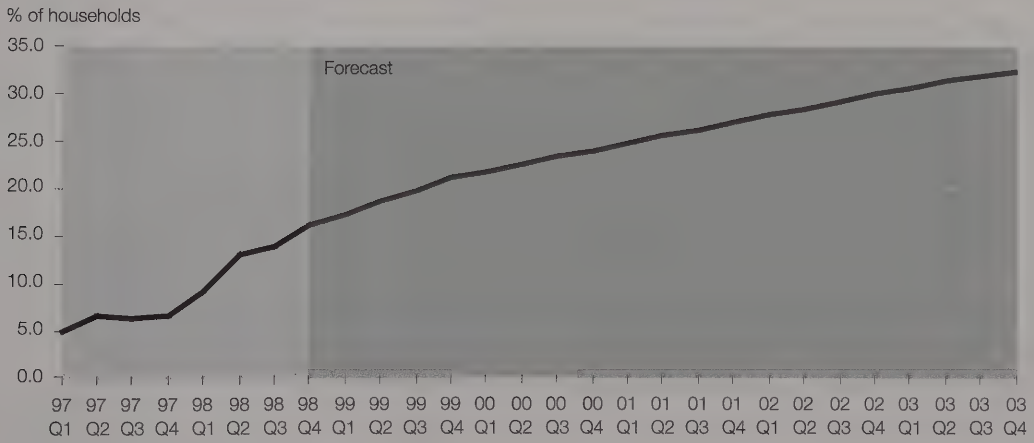
Potential @home Internet population growing faster than PC penetration

PC penetration between 1998 and 2001 is forecast to grow by 20%; on the other hand, Internet penetration is forecast to grow by 69% over the same period. Internet access in the home will rise from 16% in 1998, or 4 million households, to 27% or 7 million households with access by 2001. From 2001 to 2003 PC penetration will increase by 11%, and Internet penetration by 19%. This means that the proportion of homes with Internet access will increase to 32%, or 8.4 million homes. Internet penetration will rise from 53% of PC homes in 1998 to 80% by 2003. In short, Internet penetration is rising much faster than PC penetration.

Pushing on an open door – the uptake of modems

The different rate of growth for Internet and PC penetration is explained by existing PC owners buying modems or upgrading their

Figure 3.58 Growth in home Internet penetration 1997-2003



Source: The Henley Centre, Media Futures 1999

computers, as well as completely new PC owners accessing the Internet straight off. It is an obvious point to make, but the cost of accessing the Internet for existing PC owners is relatively small – the cost of a modem. Also, as modems now come bundled with new PCs, the decision to upgrade also brings Internet access.

Modem penetration at the beginning of 1995 was roughly 2% with PC penetration at 11%. By the end of 1998, PC penetration is at 30% and modem penetration is at 20%. This means that, in the short- to medium-term, home Internet penetration is not linked to the purchase of PCs, but is linked predominately to the growth in modems among existing PC owners.

BMRB's Internet Monitor, a survey of 1,000 Internet users conducted three times a year, shows that 87% of Internet users from home had a PC prior to gaining access to the Internet. A further 12% bought a new PC (1% did not answer the question). This reinforces the point that the key driver of home Internet access is currently modem growth.

As modems spread through the PC-owning population, so growth will slow. Eventually, all PCs will have a built-in modems and Internet capability – Internet penetration will be the same as PC penetration but, The Henley Centre believes that such a time lies outside of our forecast period. Clearly, as this process occurs, the increases in new Internet households will have to come more and more from the addition of new PC owning households. At that point, the decision to access the Internet will become mixed up with the decision about whether or not to buy a PC.

Every home Internet connection increases the number of people who can potentially access the Internet by more than one. Thus, while current Internet penetration is 4 million households, there are roughly 6 million people who could use these connections. Of the 6 million people who live in Internet households, not all will be Internet users. Those that currently opt not to use the Internet are what The Henley Centre calls Internet bystanders. The number of people who could potentially use the Internet will grow to over ten million by 2001, and almost 13 million in 2003. The shift from being a bystander to being a user will also increase the size of the Internet population without any additional purchases in hardware or software.

The number of people who have access to the Internet *exclusively* from home (ie, they do not have access outside the home) currently stands at 3.6 million. By 2003, this group of potential users will have increased modestly to 4.8 million.

The price of Internet access

The use of the Internet carries with it a price above and beyond a one-off payment for hardware (which can range between £75 and £300 for a modem, depending on its specifications, or the price of a new PC) – telephone bills and the Internet access subscription charges also have to be taken into account. These two items represent the ongoing cost of Internet use. It is these costs that the consumer is most aware of.

Overall, the cost of an Internet subscription has been declining. This trend has been driven by the very competitive pricing policies pursued by Internet Service Providers. Recently, a number of key players, Dixons for example, have launched free Internet access, taking the decline towards its logical conclusion (although the Dixons service does make money by charging its subscribers £1.00 per minute for calling their helpline).

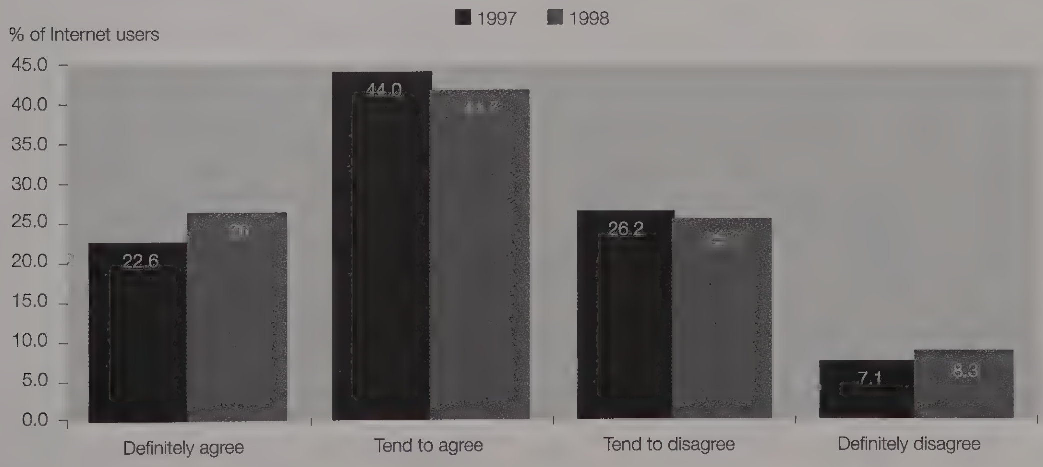
Currently, consumers are paying around £100 a year for Internet access. Only four years ago in the USA, access to the Internet and on-line services was priced on a per unit of time basis. This could be as high as $5 per hour plus substantial monthly subscription charges and a large one-off connection fee. From the high watermark that this represents, the decline in Internet access charges has been quite considerable. The trend will continue down to zero or near to zero.

The fall in revenue will be offset for the ISP by creating services and content that give consumers value for money. For example, Which On-line provides content and a help-desk service that allows it to reduce the pressure to slash prices. It is also important to recognise that, ultimately, consumers will pay for being able get a good quality connection when they want it – the perpetual sound of the engaged tone is enough for most consumers to reconsider their ISP.

BMRB's Internet Monitor shows that the No 1 reason for a consumer choosing a particular service is price (34% of respondent stating that reason). This was followed by 23% stating it was a personal recommendation by a friend or family member that influenced them, 15% saying it was the bundle of services and 13% saying it was the free trial. ISPs have a lot of work to do to shift the emphasis from price to service. To do this, ISPs have started offering free trials – 69% of Internet users had tried one or more free trials from an ISP and 11% had benefited from three trials before making a choice. The cutthroat nature of the ISP business will continue to give the consumer greater value, choice and flexibility in deciding which provider to eventually go with. The cost of accessing the Internet will become less and less of an issue for consumers in making the bigger decision about whether to subscribe to the Internet at all.

While Internet access charges have been declining over the last few years, the amount that consumers are spending overall on connections to the Internet has increased. This is because, while subscription prices are falling, the amount that consumers are

Figure 3.59 Accessing the Internet is just too expensive



Source: BMRB, Internet Monitor

spending on connection in terms of telephone charges is increasing. As the average session length increases, so do telephone bills. This is why the telecom operators have been so keen on pushing the subscription price down, as they can then increase their revenue through increased telephone line use. The introduction of Internet services, by telecom companies such as Cable & Wireless, are designed to maximise their revenues by adding an extra penny on every Internet-access telephone call. The more time a consumer spends on-line, the more they have to pay. The practice of treating Internet-access calls as a type of premium call will eventually run out of steam, however. Telecom companies will have to make do with the potentially huge increases in revenue they will still earn from increased line use charged at non-premium rates.

The cost of telephone calls is a hidden aspect of Internet access for most consumers; it is something that they only notice later, after the first bill has arrived. It does not seriously impact on the uptake of the Internet into the home, but it does seriously impact on the rate of churn. The cost of calls will contribute to a high churn rate for Internet access until a more responsive tariff regime is introduced for calls to the Internet. Ultimately, the trend will be to pay less for calls that connect to the Internet. This is underscored by data from BMRB's Internet Monitor which shows that a sizeable proportion of users think that the Internet is still too expensive. Also, if toaster type technologies enter the home in significant numbers, their use to their full potential will depend on the expense of phone calls. It would be a nightmare scenario if a washing machine or fridge ran up huge telephone bills! In the future, telephone charges will have to move to a charging system closer to that of electricity, gas or water.

Internet adoption among the interactive segments

Over the forecast period, the current @home segment will swell as people from the @ll and the Ne@rly segment join their numbers. 40% of the @ll group are planning to connect to the Internet over the next two to three years, and 11% of @lls are looking to adopt in the next year. 18% of Ne@rlys have said that they will purchase an Internet connection over the next two to three years, with 4% stating that they will buy inside the next year. These two groups represent 67% of all those respondents who said that they would get Internet access in the next year and 73% of all those who said they would subscribe in the next two to three years.

We have no specific data on the adoption of the Internet at work among the five segments. However, over the forecast period, we expect that more and more people in the non-Internet-using segments will find the Internet available at their workplace.

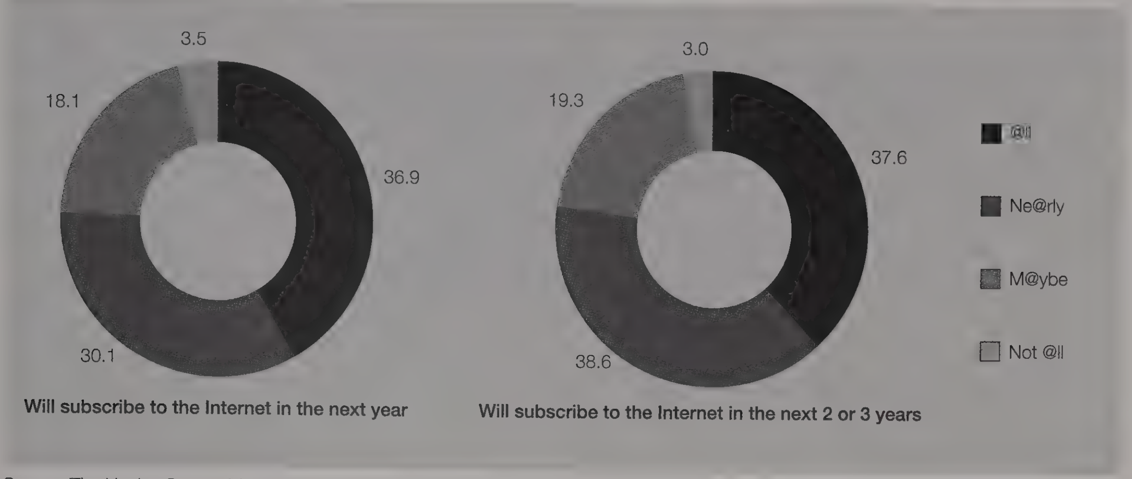
Internet – outside the home access

To get a complete picture of Internet usage, it is important to take into account those people who are accessing the net from somewhere other than their home. The number of people accessing the Internet outside the home, plus the number of at home users, represent the total number of consumers on-line. Thus, it is important to gauge the numbers of both types of user in order to understand how big the Internet population really is.

Numbers with out-of-home access

The number of people who could access the Internet from outside the home currently stands at 11.4 million, or 76% of all potential

Figure 3.60 Likelihood of getting the Internet at home in the near future



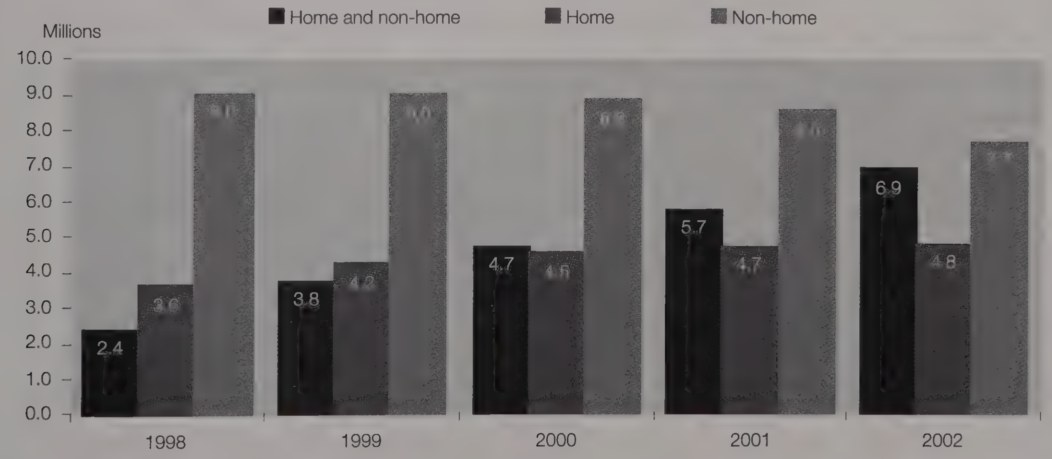
Source: The Henley Centre, Media Futures 1999

Internet users. By 2001, this number will have risen to 14.3 million, and in the year 2003 there will be 15.5 million people who could access the Internet from outside the home. Over that period, the proportion of people who access the Internet from outside the home will remain stable – in 2003, 77% of all potential users will have access from locations other than the home. The absolute number of people with access to the Internet from outside the home will decline, however – from a high point of 9 million people in 1998 to 7.7 million people in 2003. This decline will be the result of an increase in dual access users.

The dual-access consumer

The dual-access consumer is a person who can access the Internet from more than one location – home and another location, most likely to be work. The dual access group currently represents about 17% of people with access to the Internet, by 2003 the proportion will have grown to 42%. Overall,

Figure 3.61 Growth in dual access to the Internet Number of people with access at home, non-home and both



Source: The Henley Centre, Media Futures 1999; BMRB, Internet Monitor

the number of people with both home and work access will rise from 2.5 million in 1998 to 8.2 million in 2003. Becoming a dual-access consumer massively increases someone's chances of using the technology available.

From access to use

The growth in the number of people who have access to the Internet creates a pool from which the Internet user population is drawn. Of course the Internet population does not grow by this process alone, but The Henley Centre believes that it is through this process of conversion that the majority of new Internet users will come on-line.

Growth in home use

Currently, there are 3.6 million home users of the Internet. This means that 60% of those people who have access to the Internet at home are actually using it. This figure will more than triple between 1998 and 2003 to 11.3 million users. The home-user group corresponds to the @home segment from our interactive consumer segmentation. Thus, over the forecast period, more and more people will move from other segments into the @home segment. Growth in home use is, of course, capped by PC penetration. This means that growth of home use is driven both by new technology entering the home and by people changing their status from bystander to user.

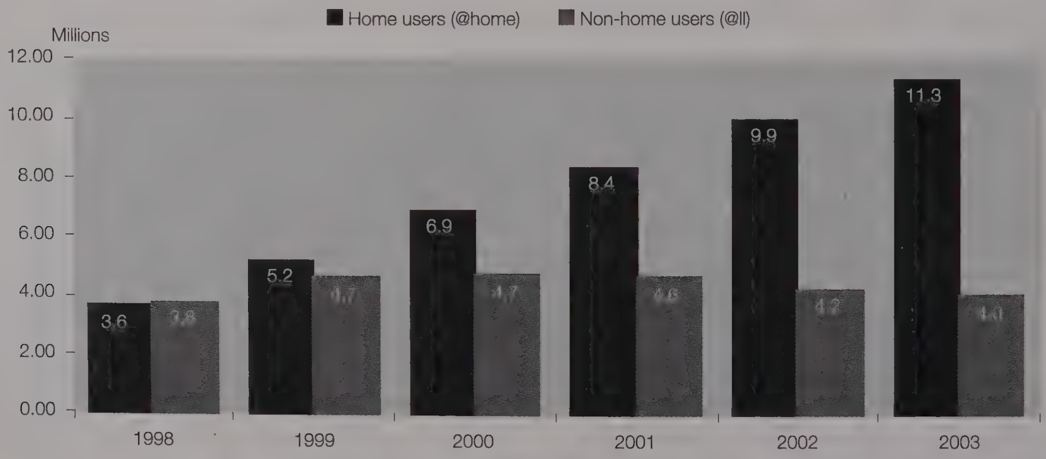
Non-home use

The absolute number of non-home users will increase from 3.8 million in 1988 to 4.7 million in 2000. After that, the number who use the Internet exclusively from outside the home will decline – down to 4 million by 2003. This process will be driven not by a decline in the absolute number of Internet users, but by a change in status from primary use out of home to primary use in the home.

Total user population – a dynamic concept

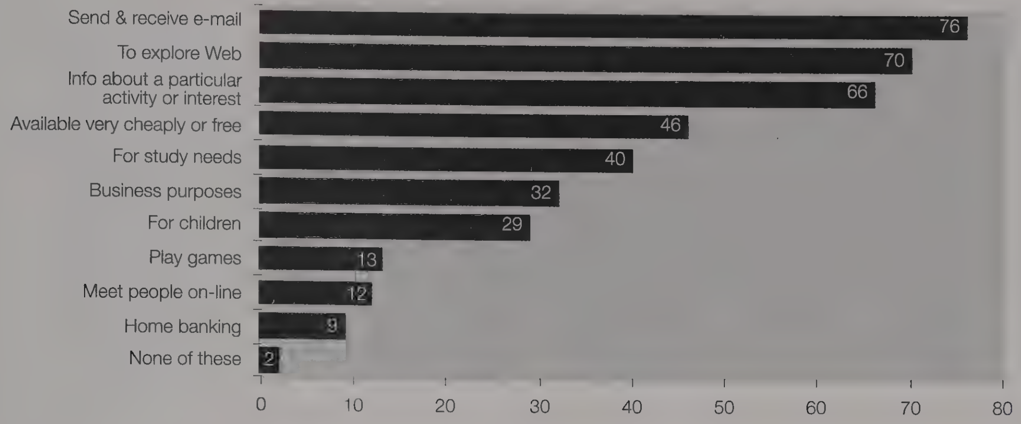
The migration from non-home use to home use is shown by findings from BMRB's Internet Monitor. In 1998, over 60% of home Internet users had first tried the Internet somewhere else. This experience acted as a

Figure 3.62 Growing number of users inside and outside the home



Source: The Henley Centre, Media Futures 1999; BMRB, Internet Monitor

Figure 3.63 Why did you decide to access the Internet at home? % of home Internet users



Source: BMRB, Internet Monitor

trigger to adopt the Internet in the home. The key out-of-home locations were work, a friend's house, or a college or university.

The more points of access that become available to people, the more like they are to start using the Internet. The path from out-of-home access to out-of-home use to home use will be the central avenue to adoption of the Internet. There will be a lag between the Internet becoming available in the home and its actual use by all members of the household. It is a simple point, but after a piece of technology has been brought into the home the story does not end. The next thing to happen is that people have to be encouraged to use it. An example of this is that while Teletext may be available on the family TV, not everyone in the family will use it. Another example is that, while every home has a cooker, for many men this humble appliance still remains an object of mystery!

Why have the Internet at home?

If a technology is on the market, there is no guarantee of its adoption or use. The big question in most people's minds concerning the Internet is: why do I need it? BMRB's Internet Monitor asked why users decided to use the Internet in their homes. The findings from the research start to put some flesh on the bones of the figures that have been discussed so far.

Among home users, the key reason for adopting the Internet is the ability to use e-mail – 76% of home Internet users sited e-mail as an important influence on their decision. The importance of e-mail should not be underestimated. E-mail, like most communication technologies, is infectious. Like a virus, once it reaches a critical mass of carriers, it sweeps through the population like wildfire. E-mail is just reaching critical mass amongst particular cohorts in society. Access to content was also an important reason for adopting the Internet, as was the desire to explore the Web in a very general sense. Over 66% of respondents chose these three reasons for adopting the Internet; reasons that concern the content and function of the Internet itself.

A second tranche of reasons, chosen by less than 50% of respondents, concerned practical needs that respondents thought the Internet could help with. They were education, either for the user or for their children, and work. Previous Henley research has established that educational reasons for adoption frequently have to be taken with a pinch of salt. Often education is the 'feel good factor' in making a purchase; in this respect it provides comfort rather than practical benefit. In addition, 46% of users said that the availability of very cheap or free Internet access was a crucial reason for adopting the Internet at home. Finally, less that 15% of current home users said that on-line gaming, home banking and the ability to meet people on-line were their chief reasons for adoption.

The transactor

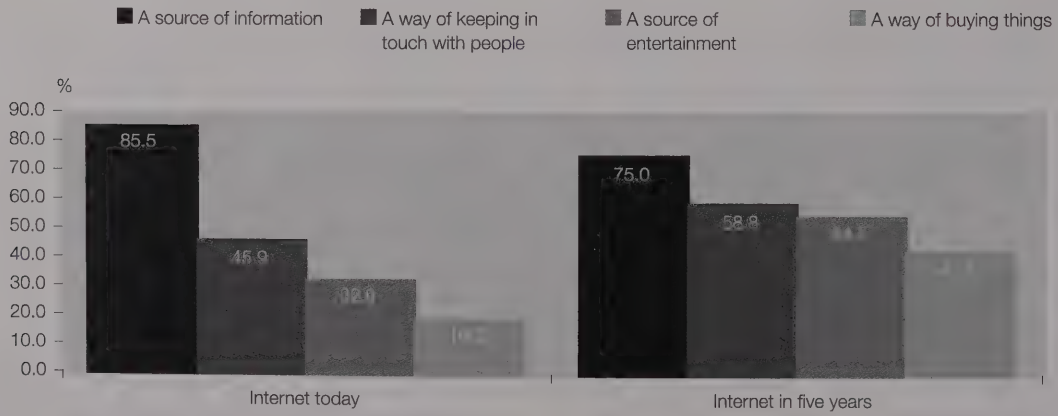
Transactors are people who use the Internet to the full. They are 'hard core' Internet users who have actually made a purchase over the Internet. The number of transactors is a crucial figure to know as it represents the total number of people who are actually buying on-line. The spending clout of the transactor community is also important to know as it represents the potential for consumer e-commerce.

Consumers understand the potential of the Internet as a commercial medium. At present its transactional capabilities are underdeveloped, but consumers are bullish about their future development. When consumers were asked to described the Internet now and in five years time it was the description of the Internet as a transactional medium that saw the largest growth. Despite this, over the forecast period for *Media Futures 1999*, the number of transactors will remain less than the total number of Internet users. It will take time for people to feel comfortable enough with Internet to start spending money over it.

How many transactors will there be?

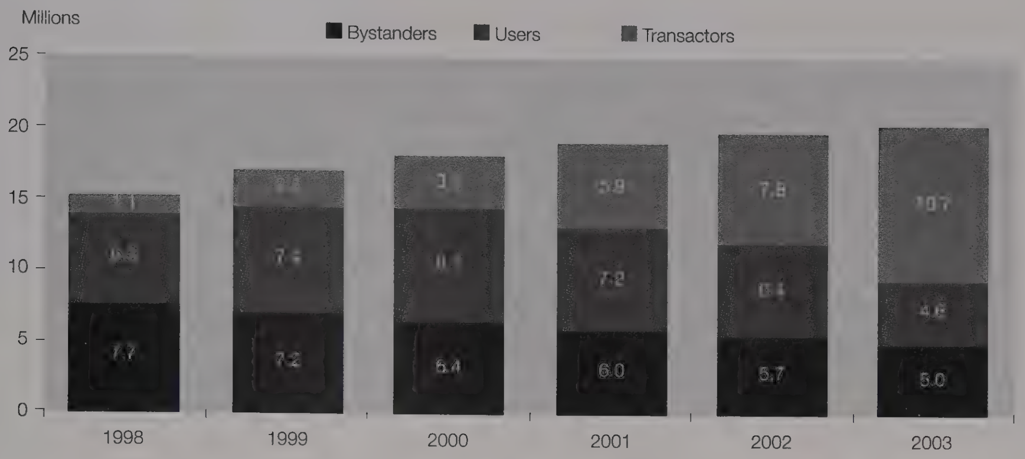
In 1998, about 15% of Internet users had bought something over the Internet, this means there are just over 1 million Transactors today. The Henley Centre forecasts that the number of transactors will increase by over 420% to just under 6 million by the year 2001. This incredible rate of growth will not be sustained between 2001 and 2003. The number of transactors will

Figure 3.64 The way consumers see the future of the Internet



Source: The Henley Centre, Frontiers: Planning for Consumer Change in Europe 1998

Figure 3.65 The future numbers of Bystanders, Users and Transactors



Source: The Henley Centre, Media Futures 1999; BMRB, Internet Monitor

increase by only 42%, but this still means that there will be almost 11 million people buying on-line in the year 2003.

The vast majority of transactors are currently @home users. But, in the future transactors will be buying at both home and out-of-home points of Internet access. The Henley Centre believes that, increasingly, people will be using non-home access points – their place of work in particular – to buy goods and services. The process of 'homing at work' – doing things in the workplace that used to be in done on an employee's own time – is a response to the increase in working hours and the resultant protection by the consumer of their precious free time. If there are mundane commercial tasks that can be performed in the workplace, then transactors will take advantage of the opportunity.

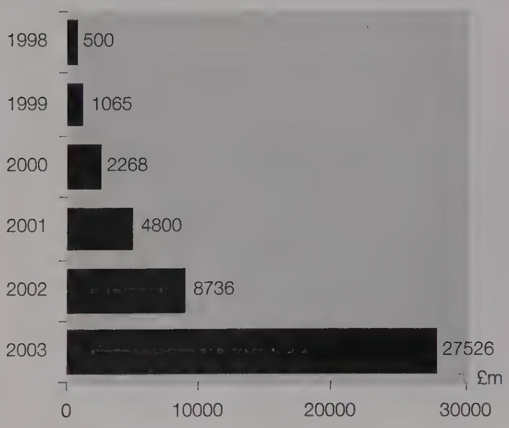
As more consumers shift from being humble Internet users to transactors, so their tastes and preferences will have to be reflected in the goods and services on offer. Two categories of services that are popular across the @home, @ll and Ne@rly segments are holidays and financial services. Both these services scored well among consumers when they where asked about their openness to on-line transacting.

How much will transactors spend?

As the number of transactors increases, so does the proportion of overall consumer expenditure that is spent over the Internet. In 1998, the amount of money spent over the Internet by was approximately £500 million or 0.13% of total consumer expenditure. As figure 3.65 shows, the amount spent on-line will grow dramatically to 2003: to £29 billion, an increase of over 3000%. While £29 billion is a large sum of money, it still represents only 4.2% of overall consumer expenditure.

The average transactor will spend £450 on the Internet over the course of 1998, by 2001 this will have risen to £820 per annum and by 2003 it will have increased by 118% to over £1,700. Thus, the increased value of the Internet market is not just driven by growth in the number of transactors, but also by each transactor spending more money on-line.

Figure 3.66 Consumer spending on-line 1998-2003



Source: The Henley Centre, Media Futures 1999; BMRB, Internet Monitor

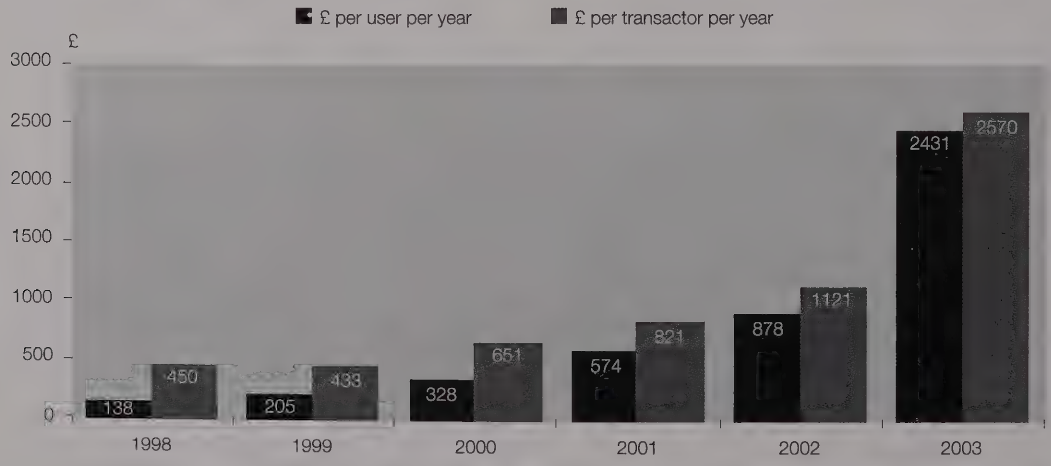
Although these growth figures are impressive, they represent a change from on-line spending being a drop in the ocean to a thimbleful! However, despite being measured only in terms of thimbles, consumer expenditure on the Internet by 2003 will something that cannot be ignored.

What are transactors buying?

The Henley Centre has forecast consumer expenditure on the Internet across each of the government's consumer spending categories. Consumer spending is grouped into three major sectors – durables, non-durable and services. A durable is defined as a white or brown good, a non-durables as a product such as groceries, clothing or books, and services as things such as admissions, betting or travel expenditures. In 2003, 8.8% of Internet consumer spending will be on durables, 41% on services and 50.2% on non-durables.

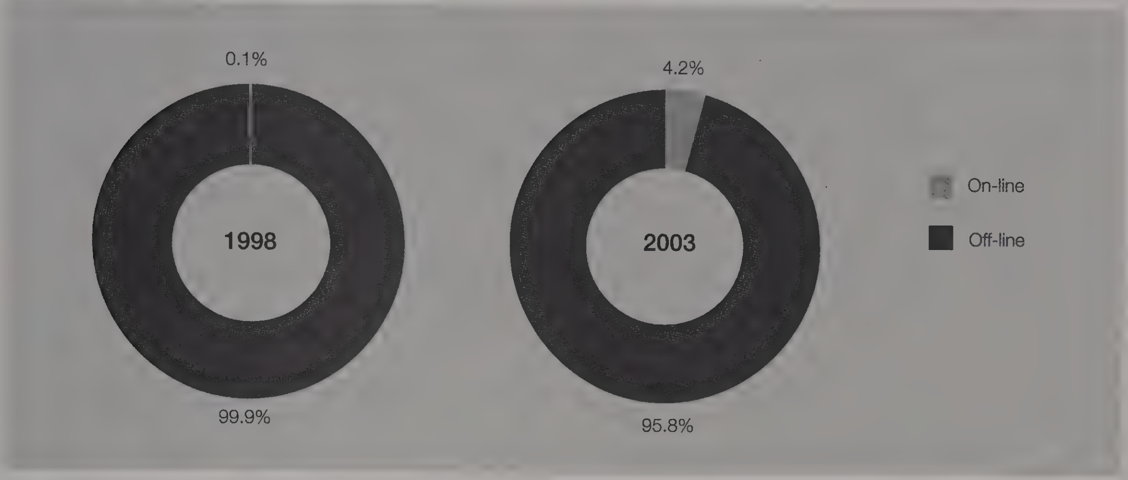
In the durable category of consumer expenditure, the key areas are motor vehicles and audio-visual equipment. Spending on vehicles over the Internet by the year 2003 will be £1,085 million or 2.9% of all spending on vehicles. Evidence from the US suggests that the automotive industry has been very quick to use the Internet as a commercial medium. The UK, while lagging the US, will also develop a strong, but small – only 2.9% of all automotive spending – on-line car dealership sector. This will be particularly true for

Figure 3.67 Average on-line spend 1998-2003



Source: The Henley Centre, Media Futures 1999; BMRB, Internet Monitor

Figure 3.68 From a drop in the ocean... to a thimble! % of total consumer expenditure spent on-line



Source: The Henley Centre, Media Futures 1999; BMRB, Internet Monitor

second-hand cars. Expenditure on audio-visual equipment will reach £500 million pounds by 2003 and 5.6% of consumer expenditure in this area. The bulk of the transactions will not be televisions, stereos or videos, but PCs, which are also included in this category of expenditure.

In money terms, the two largest areas of on-line consumer expenditure will be in the non-durable category. The Henley Centre is forecasting that £3,416 million (or 10.3% of total sales) of alcohol will be made over the Internet in the year 2003. Food to the value of £3,004 million pounds will also be sold over the Internet. This is a large figure in value terms, but it represents only 4.8% of consumers' expenditure on food. Household goods and cleaning materials will also attract on-line expenditure – almost £1,700m worth.

These large sums will be spent buying food and household goods over the Internet because by 2003, the major supermarkets will have started rolling out their home-shopping offers. They will find early success among time-pressured consumers who wish to offload regular, bulky purchases on to a home-delivery basis. Much spending on alcohol is also through the major supermarkets, but this will not explain the entire migration of alcohol expenditure onto the Internet. Sales of alcohol on-line are also likely to be of a high-value/low-volume nature. The growth of wine and beer clubs in the US suggests that the Internet suits the connoisseur's market very well.

Currently, books, music and software are selling very well over the Internet. This trend is set to continue. The Henley Centre is forecasting that 12.6% of all book sales will be on-line in 2003, in value terms this equals £174 million. Consumers will spend almost £700 million on computer software and music through Internet. It is in this area that most migration will occur; the Internet will take 20% of all spending in this area. The government figures do not separate out sales of CDs and tapes from sales of computer software. However, we expect that most of the on-line consumer spending in this area will be on computer software rather than on music.

There are three categories of services that will attract a significant amount of on-line consumer expenditure. First, there is travel, which has already seen early success in the on-line environment – travel in this sense means airline, train and ferry tickets and holidays. By 2003, consumers will spend over £2,200 million on travel on the Internet – this represents almost 9% of all consumer spending on travel. Associated with consumer spending on travel, is spending on hotels and accommodation – this area of spending falls into a category that the government calls ‘catering services’ (it also includes spending in restaurants). The Henley Centre believes that consumers will be spending almost £2,000 million on-line in this area by 2003, amounting to 3.3% of total spending on catering.

Over the next five years, only small percentages in spending will have shifted to the Internet. The average transactor will make one big-ticket purchase over the Internet per year, and this will push up the average spend over time. The value of the Internet market will grow considerably, but over 95% of consumer spending will still be via traditional channels. That said, new on-line habits will have formed; thus, the foundations for a stronger on-line transactional culture will have been created.

Conclusions and recommendations

Many companies regard the Internet as ‘where the action is’, but few, if any, can be said to have ‘cracked it’, particularly in the business-to-consumer market. In this section we draw together the main findings from our analysis of the Internet today and its development tomorrow. We have consolidated our thinking into ten key conclusions. Below we outline these conclusions and draw out recommendations for companies developing Internet strategies.

1. Computers augment human thinking – the Internet should not complicate the lives of its users, it should make them easier.

- Keep it simple – the Internet has always been about time saving on the demand-side and resource saving on the supply-side.

- Make it easy for people to get to their destination – do not make them click endlessly and unnecessarily, send them down dead ends, or make it difficult to retrace their steps.

- Be sensitive to and realistic about the user – think about how much people can absorb from a single page and do not clutter the site with unnecessary gimmicks.

- People will only spend time if they understand the value they will receive in return – if you are asking the customer for information, make clear the reasons for this and what benefit they will receive in return.

2. The Internet should be thought of not simply as a ‘medium’, but a place, a city. The Internet will develop along the same lines that cities develop – successful Internet strategies will be those that understand this process and exploit the potential.

- Navigation is critical – site-owners must develop strategies to exploit the links between pages and between sites. These strategies should be based on an understanding of the actual links that consumers make, and not on artificial structures imposed by companies.

- ‘Districts’ will become increasingly important on the Internet – sites will aggregate into branded, themed clusters. Companies need to identify emerging districts and then align themselves with the appropriate ones.

- ‘Landmarks’ are important in this large, complicated and bustling virtual city. Brands have a critical role to play – there are opportunities for strong brands to exploit the trust that consumers invest in them in the off-line environment. There are specific challenges to branding in an on-line environment, however. For example:
  - site addresses should be easy to remember and intuitive;
  - word of mouth referrals are critical – companies need to develop strategies to exploit this crucial characteristic of the Internet (‘being seen’, generating publicity, counteracting negative comment etc.);
  - you have no control over the way that search engines encourage or discourage visitors to your site – who says you will be even in the top 100 sites listed. It will become increasingly important to promote sites via the traditional media – companies can learn much from their experience of off-the-page adverting and DRTV.

3. The Internet is in perpetual motion because of innovation and competition – like a city, it will always be ‘under construction’. This makes maintaining a Web site costly – the Internet may be a cheap distribution mechanism, but it is an expensive content medium.

- Flexibility is key – sites must adapt to the fast-changing environment. What was once seen as ‘new’ and cutting edge very quickly becomes the norm, for example, transactions capability, e-mail and chat facilities, personalised information and stock quotes. New ideas and features should be evaluated and either incorporated or rejected.

- Timeliness is key – content must be changed regularly and kept ‘fresh’. Generating repeat visits to a site will depend on continuously offering new benefits to the visitor.

4. The motivations for using the Internet are principally communication and exchange. This means the Internet is more about dialogue than it is about broadcasting or telling, and it is more about communities than it is about individuals.

- Dialogue is key – do not just be a brochure or an annual report on the Internet – e-mail must be a central part of your Internet strategy. E-mail must be managed like any other customer contact medium, however – an issue that we address in the final chapter of Media Futures 1999 – ‘Interactive strategy: FAQs’.

- Furthermore, the nature of the dialogue on the Internet is not simply one-to-one (business to consumer), but one-to-many, and anyone-to-everyone. Companies need to embrace, not reject, the organic, fluid and open nature of communication on the Internet:
  - Unofficial sites and discussion groups should be identified, monitored, harnessed where possible, and not ignored or banned.
  - Adding community-building features on a site can give people a reason to keep returning and are a means of generating fresh content continuously.
  - Hosts and moderators can steer the development of a community and maintain the interest of its members. Having the right moderators is critical, however – the most successful ones are often those who emerge naturally from within the community, rather than being appointed from the outside.

5. The distributed nature of the Internet and the logic behind hypertext mean that the user (ie, the consumer) is in the driving seat.

- Site design must reflect this fundamental principle. For example, demanding information with no obvious benefit to the user or creating closed user-groups both run counter to the structure of and culture on the Internet.

- Similarly, herding people in a particular direction or not giving them a range of options will frustrate the user – people need to be able to explore freely on the Internet. Visitors to a site should always have the option to leave or go back to where they started, should they need or want to.

6. The Internet is a place that encourages collaboration as well as competition. Understanding and exploiting this characteristic requires a mind-set change on the part of companies.

- The fragmentation of the Internet is as much a strength as it is a weakness – it offers opportunities to link with other sites to drive traffic, to collaborate to develop new content or to exploit transactions capability and, ultimately, to create the themed 'districts' that will dominate the Internet in the future.

- The Internet should be seen as complementing existing media, rather than simply competing with them. For example, for content owners, there are important synergies between the off-line and the on-line worlds – the BBC's strategy for leveraging existing television and radio audiences on their Web site is an example of this.

7. The Internet excels in areas related to the buying process – its strength is in satisfying people's need to gather information, make comparisons and, ultimately, to transact. This has important implications for Web site strategy and design.

- People want to *achieve* something on the Internet: find something, buy something, or communicate with someone. Rather than try to entertain or distract the user, sites must be designed with these end-goals in mind.

- People want to use the Internet to find out about and compare products. Rather than try to avoid this characteristic, companies should be the first to embrace and exploit it. (The on-line companies ValueDirect and Request are good examples of this – they are described in the chapter 'Marketing and Communities').

- Adding transactions capabilities to a site will become increasingly important as more and more people become accustomed to buying on-line. Consumers will expect to be able to complete the purchase – restricting them to looking could damage the reputation of the brand.

- People will transact in increasing numbers, but they will still be concerned about the security and reliability of the service – reassurance is critical. For example, a simple e-mail that the order has been received and the items are on their way can make all the difference.

8. The 'average' user's needs and behaviours will change as more and more people adopt the Internet. Site design and Internet strategies will need to adapt to reflect these changes.

- The content Internet users are interested in is changing – it is shifting away from business, technology, finance and international news and information towards more localised and personal issues and interests, for example, UK-relevant content, content about hobbies, families, relationships, etc.

- Strategies for delivering personalised and customised services will need to adapt – the next generation of Internet users are less interested in having to think about and 'do' the personalisation and more interested in getting someone else to do the work for them. They are also less interested in standing out from the crowd, preferring to follow the lead set by others.

- The importance of an environment that is stimulating *and* fun will also increase – tomorrow's Internet users are more interested than today's users in games, quizzes and competitions.

- There will also be greater scope for loyalty and incentive programmes in return for information or repeat visits/transactions – a lot can be learned from the experience of Supermarket loyalty schemes.

9. Consumer spending via the Internet will be considerable by 2003 – £29 billion in total, but this will still remain a 'thimble' in the ocean in the context of overall consumer spending. Small shifts of spend will occur across a wide range of categories, and traditional media and distribution methods will remain critical in a 'mixed economy' of channels.

- The amounts of money transferring to on-line will be relatively small for large off-line players, but big enough to attract new entrants looking to exploit new relationships in a new environment.

- This means that all companies need to evaluate the Internet in terms of long-term opportunity-cost and not just current sales – first mover advantage is and will remain important on the Internet.

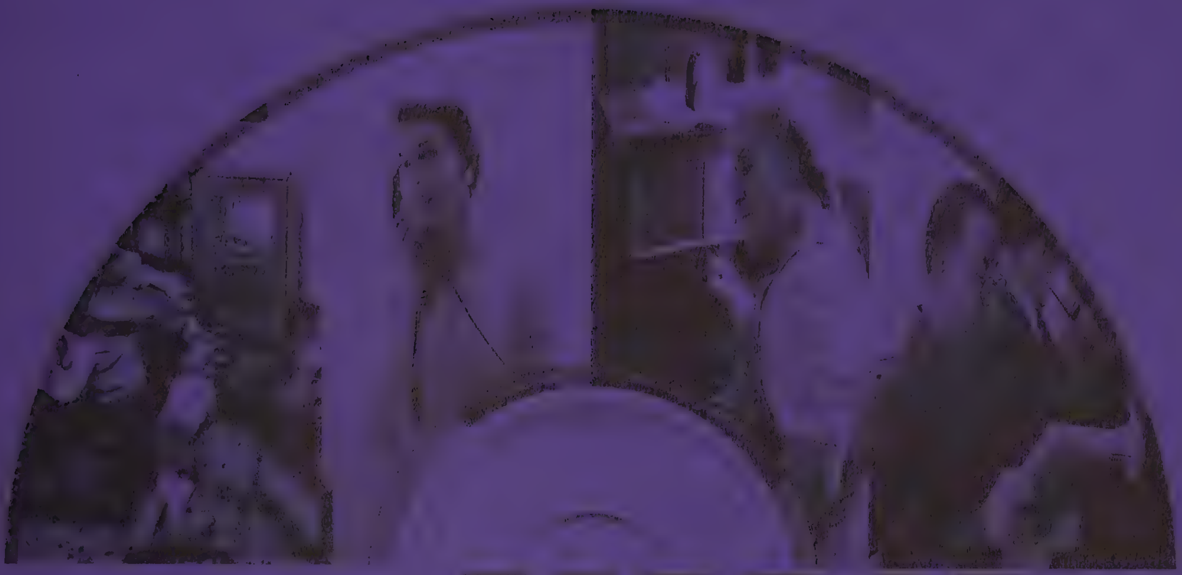
- A future of a mixed-economy of channels requires a new mind-set on the part of companies – a theme that we explore in the final chapter of Media Futures 1999 – 'Interactive Strategy: FAQs'.

10. The PC will remain the dominant platform for Internet access over the next five years – alternative access platforms will only start to develop outside our forecast period.

- Home-based use of the Internet will be tied to the demographics of PC-users, thus the Internet will remain a PC-oriented medium.

- Most people's first experience of the Internet will continue to be in the workplace or an educational environment. This means the Internet will continue to be more closely associated with work than with entertainment.

- New ways of understanding consumer behaviour and Internet usage in the workplace need to be developed – this is not a space that has traditionally been marketed to, but which is important for two reasons:
  - the Internet offers opportunities to target people in the workplace;
  - some of the characteristics of work-based Internet usage will carry over into people's use of the Internet at home.



MEDIA FUTURES 1999

TV – a digital revolution

4 Television – a digital revolution

Digital television has arrived. By the time this report goes to press, Sky Digital and ONdigital will have launched digital satellite and digital terrestrial television services respectively, with digital cable services planning to launch early in 1999.

This chapter aims to place digital TV in the context of the consumer. By understanding consumers' needs and demands, we can interpret the likely impact of digital TV on television broadcasting, from both the consumer and industry perspective.

This chapter contains five sections:

TV today and the arrival of digital ~ a brief look at the current state of the television market and summary of the basic digital offer, including operator details and commercial strategies. The section explores top-line consumer reaction to digital television and explains the need for further research in order to build up a clearer picture.

The digital future – two scenarios ~ following identification of the drivers that will influence the take-up of digital television, this section presents best- and worst-case scenarios, outlining their effect on consumers' viewing habits and the TV/advertising industries.

Demand and supply – the consumer effect ~ this section explores in more depth consumer attitudes to digital television, drawing on original proprietary research commissioned for the *Media Futures* programme. The section is split up into two parts:

- **Television content (programming) ~** we examine consumer preferences for number of channels and type of programming, together with their attitudes towards paying for television. The findings of this research suggest a new approach to the selling and marketing of digital television. The section then discusses likely changes to viewing patterns and to TV channels in the future. Finally, we look at how digital TV may change the broadcasting industry.

- **Interactive services ~** our definitions of interactivity are followed by a brief description of services that will be offered by the digital TV providers. We then compare the merits of providing these services on television or on the personal computer, exploring the ramifications for interactive services on digital TV. The last part of the section outlines why interactive services will take some time to take off and makes recommendations for providing interactive services on television.

Advertising ~ we examine the potential threats and opportunities for advertisers and their agencies entailed in digital TV. This includes a discussion of likely changes to the structures of the advertising process, and to the role that advertising and advertising agencies currently play. It details the new options available to advertisers, such as interactivity and advertiser-funded programming, and then concludes by recommending how advertisers and agencies can make the most of these opportunities whilst guarding against the threats.

The Henley Vision – 2003 ~ this section contains The Henley Centre's five-year forecasts for the uptake of digital television. Finally, it outlines our favoured scenario for the digital TV world of 2003.

4.1 TV today & the arrival of digital

Television today

More channels but no more viewing

From the birth of television after the Second World War until the early 1980s, we became accustomed to gaining one television station about every 10 years. However, with the advent of satellite and cable services there are now over 100 TV channels available (figure 4.1). TV is still very popular with the consumer (we watch over three and half hours a day on average) but viewing is not increasing in line with the number of channels. Although TV viewing rose in the last recession to almost four hours a day, it has now settled back down to normal levels (figure 4.1). Pressures of work and the competition for people's leisure time means that TV companies cannot bank on increased viewing hours from the consumer.

With more channels, the viewing audience has started to fragment. From figure 4.2 it can be seen that, although the BBC and ITV still dominate British television, nearly a third of viewing in Britain is dedicated to the new terrestrial channels 4 and 5, and to cable/satellite. In satellite and cable homes the terrestrial television services (BBC, ITV, Channel 4 and Channel 5) account for less than two thirds of viewing.

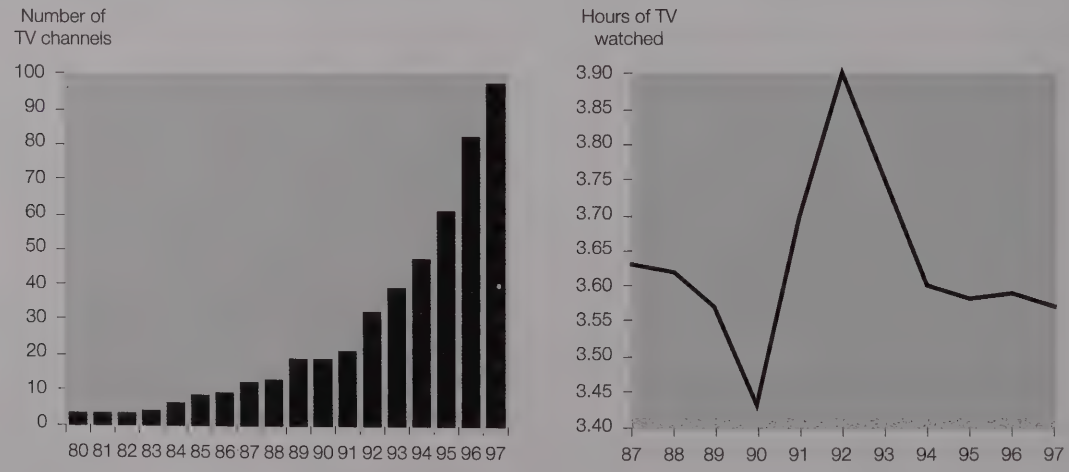
Revenue models

Apart from the BBC, which is funded by the license fee, terrestrial television in the UK is funded by advertising. TV accounts for the largest share of the display advertising market (ie, not including classified press advertising), taking over £3 billion in 1997. Cable and satellite television are primarily funded by subscription, with only 20% of their revenues coming from advertising. Subscription rates tend to be high, with consumers encouraged to take as many channels as possible by having to buy through large bundles of 'basic' channels in order to subscribe to premium movie, and sports channels.

TV and the consumer

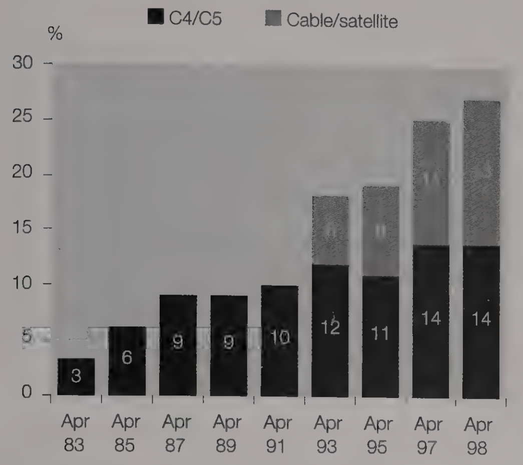
In our 1997 *Media Futures* programme we saw that the living room and the television room

Figure 4.1 More channels but certainly no more viewing!



Source: Carlton TV; Zenith Media

Figure 4.2 Viewing fragmentation % viewing share of Channel 4/Channel 5 and cable/satellite



Source: Zenith Media

are one and the same place for the majority of British families. It is at the heart of the home. Second and third sets mean televisions are now common in both adults' and children's bedrooms.

To appreciate TV's domination as a medium, you only have to add up the amount of time an average person spends on other media per day, including radio, newspapers, PCs, magazines and video games. This total still does not come anywhere near the amount of time we spend watching the box.

TV is capable of reaching large swathes of the population in one fell swoop. For example, over 17 million people watched Diana, Princess of Wales' funeral on BBC1, and millions more watched it on ITV. At its peak, the recent England/Argentina World Cup football match reached over 26 million people. It is not only event programming that pulls in the viewers, however. Dramas such as *A Touch of Frost* can attract over 16 million viewers, and the average viewing figures for *Coronation Street* were over 14 million in 1997. While these figures are slightly lower than in previous years, due no doubt to viewing fragmentation, TV is still a truly broadcast medium.

Advent of digital

In the last *Media Futures*, television was likened to a social glue, its programmes, stories and characters minting a conversational currency that connects people from all walks of life. In 1997, another Henley report, *Planning for Social Change*, found that just under half of respondents talked about television at least every 2-3 days. It is not surprising, therefore, that you can't pick up a newspaper or even a magazine without reading several articles about the launch of digital television. With multi-million pound advertising campaigns featuring the biggest names in British broadcasting, it will soon be impossible to hide from the *"biggest revolution in television since the introduction of colour,"* in the words of Michael Green, managing director of Carlton Communications. While he has a vested interest (through the co-ownership of ONdigital, one of the planned new services), digital television does have the potential to alter radically the television landscape.

What is digital television?

Before we explore underlying consumer reaction to digital television and the ramifications for the industry as a whole, this next section will attempt a concise definition of:

- digital enhancements to traditional TV
- market structure of digital television
- market players and strategies
- top-line consumer reaction to digital television

Digital enhancement

All current television signals are broadcast in analogue, through conventional transmitters, satellite or cable systems. Television is the latest medium to get the digital makeover, with all three television delivery platforms planning to broadcast signals in a digital format that uses binary transmission of information. This could be compared with the replacement of conventional long play records with compact discs in the music industry. By purchasing a new digital television, or a Set-Top Box plugged into a conventional television, viewers will be able to convert the new digital signals. Consumers purchasing a new TV set will be able to receive:

- sharper, clearer TV picture
- quality stereo sound (similar to other digital technologies, eg, compact discs)
- wide-screen TV format

With wide-screen and quality-sound formats available with conventional analogue television, the stronger lure for both broadcasters and consumers will be the availability of multi-channel TV and the promise of interactive services.

Consumers who purchase a digital TV set or STB will be able to receive many more TV channels as digital signals are far more compact than traditional analogue, allowing broadcasters to make more effective use of their allocated frequencies. The other 'big-draw' for digital television services will be the possible provision of information and interactive services such as home shopping or banking. This will be made possible by the increased bandwidth of digital and the ability for the viewer to communicate with the broadcaster through a return path signal via the telephone network (subscribers to digital cable will be able to communicate using their existing cable connection).

Market structure/players

As with conventional television, digital will be available through satellite, cable and conventional terrestrial television. While key companies are allied to the different services, many broadcasters will make use of all the differing formats, blurring the distinction between the three delivery platforms.

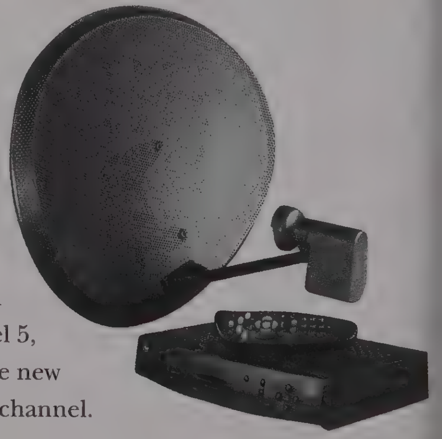
Digital satellite television (DST)

The satellite television operator BSkyB launched a digital service on 1 October 1998. The service offers 140 channels, including data- and music-only channels.

To receive digital satellite, consumers need a satellite system and a new digital STB.

As well as carrying all current Sky services and multiple channels (eg, MTV, Discovery etc), Sky digital will include new services such as near-video-on-demand (NVOD), in which some movies will be staggered over different digital channels so you will be able to catch the start every 15 minutes). It will also offer new sporting channels (eg, Man United Television) and will source new channels from other producers.

BSkyB has sought agreement to carry all the BBC channels, including the new joint BBC-Flextech channels, and will also carry Channel 5, Channel 4 and the new Channel 4 movie channel.



Sky Digital will not carry ITV or its new sister channel developed for digital, ITV2.

Sky digital will offer interactive services from British Interactive Broadcasting (BIB), a joint venture between BSkyB, BT, Midland Bank and Matsushita. By using the remote control for the STB and connecting it to a phone line for return services, BIB will offer:

- home shopping, including food, fashion, travel, music and books
- home banking
- entertainment services
- advanced information services
- restricted Internet service

BIB has invested heavily in technology to create a 'virtual high street' through the television screen, where collaborating clients will be able to sell their goods and services.

Digital terrestrial television (DTT)

Most households, apart from cable, still get their television signals through a terrestrial format using a conventional aerial (even satellite households still get the main channels this way). Digital terrestrial television broadcasts over six digital multiplexes, which currently allow approximately 30 channels to be broadcast. Consumers can pick up the signal using a conventional aerial, providing they have a new digital TV set (IDTV) or STB.

The government has given half a multiplex to each of the terrestrial broadcasters (BBC1, BBC2, ITV, Channel 4, Channel 5 and S4C). The other three multiplexes were put out to auction to commercial TV companies. ONdigital (formerly British Digital Broadcasting) secured the rights to broadcast on the remaining three multiplexes until 2022.

By allocating each of the terrestrial broadcasters with half a multiplex, consumers with an IDTV or STB will be able to receive all the current terrestrial stations plus new services launched by those broadcasters with spare capacity on their multiplexes. For example, the BBC has launched BBC News 24 and BBC Choice, whilst ITV will shortly launch ITV2. Most of the services provided by these terrestrial broadcasters will be free and available to around 90% of the population.

ONdigital provides Pay TV services over DTT using the remaining three multiplexes. Viewers will need to pay a monthly subscription charge to access the services, ranging from £7.99 for a choice of six of the basic channels, to £10.99 for all 15 basic channels to over £20 to subscribe to the three premium channels available. The basic channels will be provided by Carlton, Granada and BBC-Flextech, with the three premium ones being sourced from BSkyB.

Other Pay TV services will be supplied by S4C Digital Network (SDN) (which is using the spare multiplex capacity owned by Channel 5 and S4C, which are not planning to launch new digital services apart from their existing channels), and by Channel 4 which has launched a subscription film channel for £5.99 a month.

ONdigital and some of the terrestrial broadcasters, notably the BBC will launch 'Super-teletext'-style services that will carry information and entertainment services. No interactive services will initially be available, though this could be possible when more advanced 'second-generation' STBs become available.

Digital terrestrial services were launched on 15 November 1998.

Digital cable

Cable operators also plan to launch digital services. Although these are not as advanced as the DST and DTT digital services, Cable & Wireless, one of the big three cable operators, has announced plans to launch at the beginning of next year (1999).

Cable operators will be able to roll out their digital services to existing subscribers by replacing their existing rented STBs with new digital ones.

Digital cable will have the capacity to carry over 100 channels. Much of its content, as with analogue cable, will be similar to satellite services, although exclusive offers will include:

- NVOD movie, services, not sourced from Sky
- advanced interactive services eg, home shopping, home banking

Digital cable subscribers will be able to use interactive services without having to use a separate return path through a phone line, as they can utilise the return path built in to the existing cable network. This will technically allow cable operators to provide a more superior interactive service.

Market strategy

British Sky Broadcasting

Stated aims

Sky's repeated mantra is choice, choice, choice. It claims its new digital service will turn television viewers into active users of television, rather than passive viewers. Its original satellite service found a killer application in sport, this time it claims that a combination of drivers will propel viewers to its system, all underlined by viewer choice.

An Electronic Programming Guide (EPG) is designed to help viewers find their way around the multi-channel universe. It is an 'easy to use' screen-based system that will give them information about programming and allow them to programme in reminders of what they want to watch. By using the EPG, viewers will be able to view Near Video On Demand (NVOD) movies which start approximately every 15 minutes. They will also be able to view many more channels than are available on Sky analogue, eg, Bloomberg News, new MTV music channels, new Discovery nature channels and CD-quality music-only channels. Perhaps most importantly viewers can use their remote control for the interactive services offered through BIB and access the 'high street on your TV, not the PC on your TV'.

Sky claims consumers want more choice and that the TV, being the centrepiece of the home, is the best place to carry out interactive services with its almost universal penetration in the UK. Penetration will be driven by heavily subsidised STBs to current and new subscribers as well as by free installation of satellite dishes.

Behind the scenes

Sky has been very successful in the past as the dominant Pay TV provider in the UK, targeting limited parts of the population that have a thirst for movies and sport on TV. By luring these customers and using strategic pricing polices, Sky was able to charge high premiums, reinforcing its position in the market and allowing it to outbid potential competitors for successive rights to the premium content.

This strategy, while previously successful, was facing the following threats:

- analogue satellite penetration and subscriber growth has started to tail off and the slow-but-sure growth of cable subscription, which has started to offer more flexible subscription packages, could be a potential threat to Sky in the long term;

- the threat to Sky has increased with the onset of the new Pay TV service from ONdigital which was also planning low entry packages;

- the recent Independent Television Commission ruling on channel bundling has restricted Sky's power to make consumers buy through large bundles of basic channels in order to access the premium sports and movie, channels.

Sky will now use its digital service to drive up penetration by offering more flexible and cheaper entry packages to a wider market. While the ITC ruling was primarily aimed at Sky, many commentators claim that Sky would have changed strategy in response to increasing competition and that the ruling came too late in the day. With its greatly increased capacity, the digital service will allow Sky to offer customers much more tailored packages. By doing this, Sky will hope to maintain its position as owner of the biggest deliverer of Pay TV in the UK, using its muscle to secure the best content (exclusively where possible), and to sell its content on to other digital providers.

Sky had originally been part of the bid for the digital terrestrial service along with Granada and Carlton, and though it will still be supplying programming, it has been barred from co-ownership by the EU, which deemed it anti-competitive. Sky will compete vigorously with the new digital terrestrial service and has already stolen a march on its rival by:

- launching nearly two months earlier than ONdigital;

- offering low entry packages from £6.99 to counter ONdigital's 'below £10' start-up package;

- offering free installation of satellite dishes to compete with DTT's 'plug in and play' proposition.

Sky is banking on getting a large return on investment through its participation in the BIB interactive service. The service will be closed – that is, goods and service providers will have to negotiate fully with BIB to launch the service, allowing BIB to charge for access and/or each transaction carried out over the service. By only allowing limited access to parts of the Internet, Sky should be able to prevent consumers from doing business with competitors of BIB's service providers.

BSkyB is strongly tipped for success in the digital TV war against its competitors. It launched first and, compared with ONdigital, has a strong line-up of programming. Its marketing expertise, combined with a budget of well over £50 million, should ensure it fares well against its competitors. Obviously, its fortunes will be tied to the success of digital TV as a whole, which will be considered more fully in the following chapters when we have undertaken thorough consumer analysis.

Its major pitfalls will be 'dish snobbery' of certain consumers, and the threat to BIB of the Internet and other home-ordering services. Unless BIB can give consumers a clear advantage over open forms of interactive services, eg, the Internet, consumers may rebel against the perceived lack of choice, ironically the mantra of Sky programming. ITV is not supplying its service or the new ITV2 service to satellite. While this may not dissuade customers initially, if analogue terrestrial is turned off, Sky customers would run the risk of losing access to what is currently Britain's most watched TV channel.

ONdigital

Strategy

ONdigital wants to provide multi-channel television to new subscribers with a simple 'plug in and go' system. By providing a 'manageable' number of channels through the existing TV set, with a plug-in box that needs no connections or new installations, ONdigital will try to appeal to Middle England, who have so far shunned Pay TV in large numbers.

ONdigital claims to be offering a channel line-up that is responsive to consumer demands (a point we shall return to in section 4.3) and which constitutes value for money.

ONdigital will subsidise STBs to subscribing customers, charging £199. It hopes to pick up new customers from those who buy new IDTVs, as this will need no extra hardware to receive ONdigital services.

Behind the scenes

ONdigital's owners, Granada and Carlton (which together own over two thirds of ITV) would like to expand their revenue base from advertising into new revenue streams of subscription and pay-per-view television.

Initially, ONdigital's proposition looked compelling, with no installation problems, a low entry price and programming from Carlton, Granada, the BBC and premium services from Sky. However, Sky Digital has removed many of ONdigital's unique selling points as it too will have low entry prices, BBC programming and free, if not easy, installation.

ONdigital's best hope is to build up subscription as people replace their old analogue sets with digital. It also assumes that there is solid demand for the back programming libraries of Carlton and Granada. Commentators claim that the only decent programming is from Sky, which will take up nearly 80% of its programming costs. To really differentiate itself from Sky, ONdigital may need to secure more exclusive content.

With the government having a vested interest in turning off analogue signals (as it can sell the frequencies to communication companies), and with the ITC claiming that DTT is the only platform capable of giving universal UK coverage (though currently terrestrial penetration is only up to 90%), ONdigital could fare well in the long term, luring niche subscribers who do not have/ want a dish or cable services.

The other ace in ONdigital's pack is that ITV and ITV2, a new digital sister station to ITV, will not be available on Sky Digital. Although Sky viewers will be able to receive ITV analogue signals using their traditional TV aerial, the eventual switch off of analogue and the absence of the ITV2 station maybe deter viewers from the satellite service, taking ONdigital service instead.

ONdigital will need large resources and tenacity not to become the British Satellite Broadcasting of the 1990s, however. BSB was effectively taken over by its competitor, Sky, less than two years after its launch.

Cable & Wireless

Cable & Wireless claims it will deliver choice and flexibility through the most sophisticated broadband infrastructure in the world. With no return loop need via a telephone line, Cable & Wireless intends to offer Internet access, advanced proprietary interactive services and viewer choice through NVOD. Cable & Wireless states that it will be able to control the roll-out of its digital service by merely swapping the STBs that all subscribers rent from them, rather than having to get consumers to make an up-front purchase as with DST and DTT.

Most cable companies have focused their attention on telephony, sourcing much of their television content from BSkyB. A commentator at Cable & Wireless thought that the eventuality of voice communication becoming a commodity means that cable companies need to progress into information and entertainment services. While it is undoubted that cable does have superior technology for interactive services, its digital TV plans seem to be least advanced, with little announcement of actual services, though Cable & Wireless has agreed a joint marketing effort and programming alliance with BSkyB. However, this is an uneasy alliance and has been likened to the pact between Hitler and Stalin prior to the Second World War. Cable & Wireless is already launching an interactive service, Homefront, that competes with Sky's part-owned BIB service.

Though cable has seen recent consolidation, there are still three big players in the cable market, all with a poor track record of marketing and selling services and all burdened by heavy debt levels from the high sunk costs of providing the cable networks. Hope can be gleaned from cable's increased growth in recent years, though the new energised competition could easily reverse this trend.

BBC

The BBC has a two-pronged strategy for dealing with digital TV. First, it is developing public, free-access digital channels using up to 10% of existing BBC funds. Through separate commercial funding, it will provide Pay TV services in partnership with Flextech. Though initially thought to be aligned to DTT, by having its own multiplex to broadcast digital services, the BBC has now become 'platform neutral' in offering its channels not only to cable, but also as satellite services. The logic behind this decision was that, as a public service broadcaster, it should offer its services to the widest possible audience.

This effectively means that, as time continues, the BBC could actually stop becoming a broadcaster in the strictest sense, rather acting as a supplier of services to other broadcasting companies. This could become a high risk strategy, as the BBC could be at the mercy of the digital gatekeeper, ie, the company that distributes the programming. With a surge in channel capacity and a corresponding requirement for more programming, however, content providers such as the BBC could have increased negotiation power to sell their services. These issues will be explored in further depth in section 4.3.

ITV

ITV's strategy is closely linked to that of DTT, which is owned by the two largest ITV companies. By refusing to put ITV and its new ITV2 sister station on digital satellite, ITV hopes that it can become an important weapon in getting consumers to convert to the new digital terrestrial service.

ITV2 will be a free-to-air service offering staggered ITV scheduling as well as sports and other live events to appeal to a young male audience sought after by advertisers and not delivered strongly by existing ITV schedules.

ITV is not currently investigating Pay TV, although Carlton and Granada are pursuing this for the ONdigital service.

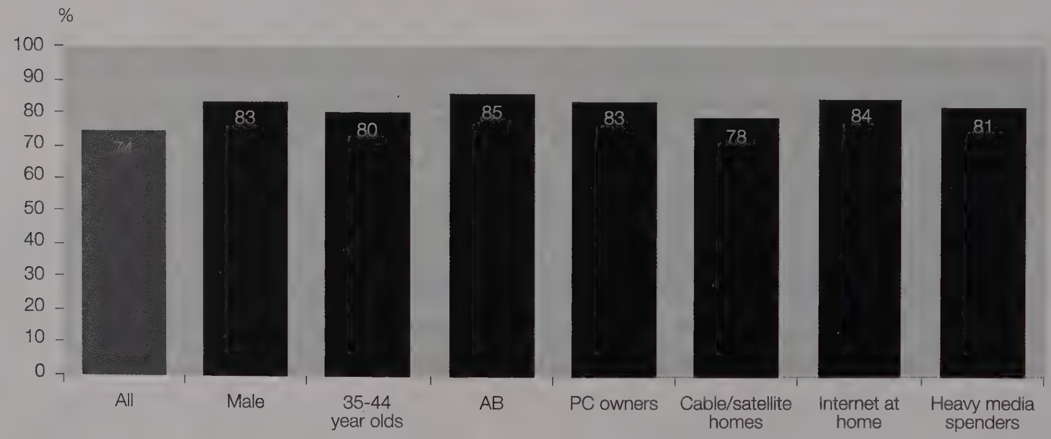
Top-line consumer reactions to digital TV

The wait-and-see consumer

As part of our *Media Futures* survey undertaken in July 1998 we found that just under three quarters (74%) of the population had heard of digital television (see figure 4.3). This figure rose to well over 80% for higher social grades, PC and Internet users at home and, perhaps most encouragingly for the new digital TV providers, by those categorised as having a heavy media spend (including Pay TV, magazines, cinema, newspapers). An update in September 1998 found that awareness had risen to 79%. This will have been influenced, no doubt, by the large amount of media coverage that digital TV has received in recent months.

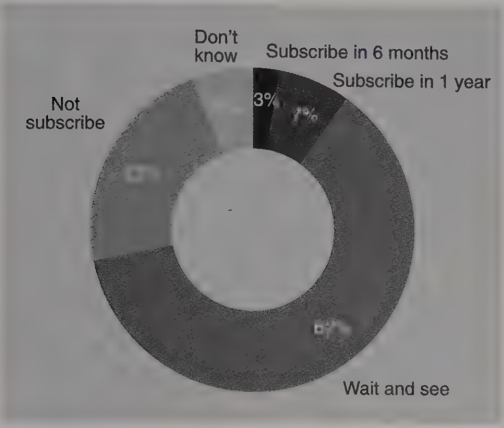
The *Media Futures* survey asked consumers what their purchase intentions would be towards digital TV when it was launched in the autumn of this year. From figure 4.4 it can be seen that the overwhelming majority claimed they would 'wait and see' before subscribing, though just under a quarter (22%) claimed that they would not subscribe at all. One in 10 subscribers claimed that they would subscribe within a year. Unsurprisingly, these respondents were chiefly made up of a typical early adopter profile. For example, 17% of homes with an Internet connection claimed they would subscribe within one year, along with 13% of homes with a PC. In terms of demographic groups, the most likely subscribers were young, male and upmarket groups. When we re-asked the question in September of this year, 59% of respondents claimed they would wait and see, though 18% claimed they would subscribe within a year. This is a marked increase from the previous

Figure 4.3 High awareness of digital TV % heard of digital TV



Base: All respondents
Source: The Henley Centre, Media Futures 1999

Figure 4.4 Most consumers will wait to make up their mind Digital TV will launch in the autumn of this year, do you think you will…



Base: All who have heard of digital TV
Source: The Henley Centre, Media Futures 1999

survey though, as we shall see in the next section, intentions towards digital TV should be treated with great caution due to consumers' lack of understanding of the product.

Caution from lack of understanding and consumer confusion

The great wait-and-see attitude towards digital TV will stem from the lack of clear understanding in the market place. In July 1998, only 7% of our respondents claimed to understand a lot about digital TV; there was little change in September 1998, with only 9% claiming to understand a lot. Not surprisingly then, when we asked consumers who they thought would be best at providing a new digital service, 60% did not know. Choices for the four options, BT, Sky, BDB (now renamed ONdigital) and local cable operators were fairly evenly spread, though BDB had the highest score, with 11% of respondents thinking it would be best at providing the new service. This was probably because respondents were told that it was owned by two ITV companies, Granada and Carlton. We also included BT, which will offer entertainment services from 2000. The BBC was not included as it will not actually be providing its own Pay TV platform, but will offer its services to each of the three platforms.

This lack of understanding frequently translates into consumer confusion about digital television. With a complicated market structure and warnings of incompatibility between the hardware offered by different services (consumers who buy a STB for one of the platforms will not be able to use it to access another system without buying further hardware), this confusion is to be expected. Although digital television could herald the biggest revolution since colour TV, it should be noted that the move to colour gave the consumer clear, straightforward improvement. For this reason, it should not be used as a model with which to compare the transition to digital TV.

Back to basics

With little consumer understanding of digital television, it is impossible to understand up-front any particular preferences for service or for provider. Many reports in the press, based on surveys that ask which platform viewers will subscribe to, have predicted low take-up of services. This amounts to little more than guess work. In order to understand how the consumer will relate to digital television, to explore consumer needs and demands in terms of content and the new interactive services, we have to approach the problem with more subtlety. Less direct questions must be asked in order to understand how many channels people think they may require and what sort of programming they would want. Perhaps more importantly, we also have to assess what sort of prices consumers might be willing to pay for the new services and how they value spending on television.

We will undertake an update of top-line consumer attitudes and intentions towards digital TV in November 1998 and subsequently in 1999.

4.2 The digital future - two scenarios

Drivers

As explained above, there are inherent problems in asking consumers direct questions that require them to predict their behaviour concerning digital TV. A more realistic way of assessing the situation is, first, to identify the various factors and drivers that may exert an influence on the future of digital TV and its three separate platforms. These include:

- regulation
- launch timing
- price
- programme content and viewing figures
- capacity for interactivity; interactive services
- marketing efforts
- ease of installation
- ease of use
- coverage of service

These drivers are both supply-led and demand-led; many of them will affect take-up indirectly through their influence on consumer attitudes and behaviour, and clearly they can combine to produce a number of different outcomes. To illustrate these possible relationships, we have contrasted two scenarios – best-case and worst-case – for digital TV in 2003. This allows us to develop a more dynamic type of forecast that can be adjusted according to the performance of the drivers. It also enables us to set up certain issues arising from the scenarios to be discussed further in section 4.3.

Drivers in action

2003 – The glorious revolution

Digital TV household penetration has reached an amazing 60%. The government has announced that analogue switch-off will be in 2011, having previously introduced a VAT reduction on all STBs and IDTV sets in the 1999 budget. NTL, Cable & Wireless and Telewest merged their cable services to form CableCom in 2000. Sky Digital got off to a flying start in 1998 and converted 90% of the existing customer base to digital by 2003. DTT, although starting slowly, picked up many viewers through the purchase of integrated sets from 2000, when prices dropped considerably due to worldwide volume production. ONdigital secured a highly profitable niche market from subscribers unwilling to take a dish or cable connections.

CableCom made considerable inroads into the interactive market. Its open-platform system meant that many companies used their existing Internet sites as a blueprint to transfer business onto CableCom's interactive service. Although interactive services were not available for the first two years on the ONdigital service, it made a deal with CableCom in 2000 to access its open-based Internet service. Generally, interactive applications on TV were a success, particularly in promoting information-seeking and transactions for home banking/shopping, travel, music and books. Utility companies and government departments started to place interactive services on the Internet and digital TV.

BIB's interactive service via Sky Digital benefited from its high-quality and easy- to-use services, but its potential was constrained by the limited amount of suppliers to which it provided access (due to proprietary software). In the early years BIB offered superior graphics and handling systems, but improvements to the CableCom interactive service closed the gap. The interactive services were designed to be sympathetic to the social role of TV within the home, appealing to the family as a whole. These services allowed viewers to 'lean back' and browse though information, entertainment and home shopping/banking services. Communication by e-mail was not a great success because consumers had to use a handset to type e-mails or letters. Infra-red keyboards were developed but did not catch on, with most consumers preferring to use their home PC.

Marketing of the three services was a great success. After the initial overwhelming burst of awareness, TV marketing achieved a more consolidated maturity. Due to the 'unbundling' of TV packages, which led to true consumer choice, the TV channels began to use effective relationship-marketing techniques on their consumers. Analysis of viewing habits meant that consumers were offered relevant cross promotions and informed of future programming/channels that they would find interesting. Digital operators offered more flexible payment systems that included very low connection/ subscription charges, so that consumers were able to pay for individual channels, series or even programmes. Broadcasters even launched loyalty programmes in the quest for the consumers' time and money.

Viewing became much more fragmented as consumers increased their use of the EPG to sort through the multi-channel universe. Channel brands started to become irrelevant as viewers simply sought out the most important programming using these new intelligent guides, which constructed schedules for the viewer based on previous consumer choices and preferences. Though EPGs were of great benefit to their owner, channel brands lost their ability to inherit large audiences from popular programmes, which consequently damaged the ratings of ITV and the BBC: watching TV became a unique experience for each viewer. Some programmes, however, remained popular and still received large audiences. These 'killer content' programmes became brands in their own right and did not need to be allied to any particular channel or digital platform: the consumer would always seek them out.

2003 - The damp squib

Digital household penetration has struggled to reach 20%. The government did not announce a switch-off date: as penetration was so low, it decided any announcement would be unpopular with voters. Almost half of digital viewers were consumers of satellite services. Digital terrestrial and digital cable services each had only 5% household penetration. As many consumers had opted for free-to-air terrestrial services, there was an even lower take-up of ONdigital. The company became principally a vehicle for Sky premium services for those who did not want a dish or cable. In fact, over 20% of the population could still not receive the ONdigital service due to reception problems. Cable was slow to roll out its digital service, due to technical difficulties and the high cost of supplying upgraded digital cable boxes to each home. Instead, it concentrated on supplying telephony and Internet connections.

Low subscription was partly due to consumer confusion about the merits of various platforms, and partly due to poor marketing of the digital services. In the early days, consumers were bombarded with advertising that promised many different channels in a range of different packages. Although some viewers wanted more channels, they did not like having to sign up to subscription deals for this luxury. In fact, consumers appeared to resent the fact that they had to pay in order to access some of their favourite programmes. Many consumers stuck to their existing subscription (analogue) TV, not wanting to invest extra money for more of the same.

In this minority digital community, channel brands still had considerable power. Consumers planned their TV viewing by the traditional methods of consulting listings, responding to on-screen promotions, channel hopping, or simply watching indiscriminately. The EPG was used as a glorified listings magazine. Viewers did not like the more complex options: they were difficult to use and often did not produce the desired results. Instead, consumers tended to stick to their favourite portfolio of channels. Marketers used channel branding to act as a beacon to ensure their channel had a place in the viewer's portfolio. Consumer scepticism was furthermore compounded in the first couple of years by stories that STBs soon became outdated and people would need to retune or even replace their existing terrestrial aerials.

Interactive services were not a great success on digital TV. Consumers did not associate their TV with interactive services and found it easier to use the Internet, whose penetration had expanded to 50% of homes. This had been helped by low-cost PCs and dedicated Internet devices that plugged straight into the phone line. Home banking and text-based services such as financial planning and news information proved popular when used via mobile phones. Shopping for goods and services was widely carried out using the Internet or new screen-based home phones that utilised touch-screen technology, enabling users to order from a wide variety of suppliers. Cable companies managed to capitalise on Internet growth by offering high-speed access and reduced cost, despite the fact they faced stiff competition from BT and other telecom operators. BIB's interactive service had been a flop because companies were unwilling to invest large sums of money in a proprietary system, instead developing their Internet sites. However, consumers still found digital text services useful for seeking information about, for example, holidays, entertainment, news and weather. Customers used it for a first port of call before following other routes to *transact* with the companies.

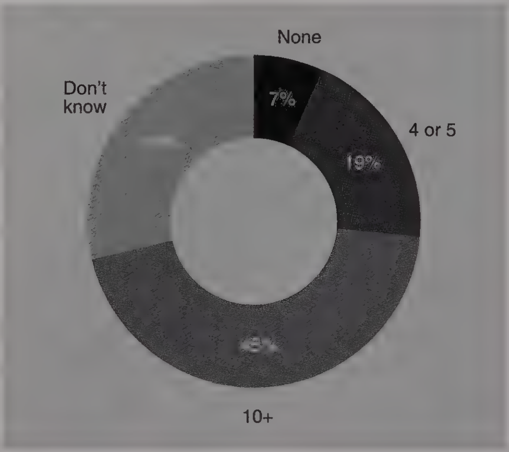
4.3 Demand and supply - the consumer effect

TV content

More quality please

From figure 4.5 it can be seen that just over a quarter of consumers don't want any more television channels. In fact, 7% of those surveyed claimed they didn't want any TV at

Figure 4.5 More want more How many channels would people like to have?



Base: All respondents
Source: The Henley Centre, Media Futures 1999

Figure 4.6 Demographic analysis of multi-channel households

Demand for more channels	Age and sex	Social class	Income	Current cable/satellite
Conservatives (no TV or existing terrestrial channel number)	65% female 62% over 45	28% AB, though from all social classes	Skewed towards very high- and low-income households	Over 90% do not subscribe to satellite or cable
More channels	60% male 60% under 45	All social classes	Skewed towards top 50% of household incomes	30% currently subscribe to satellite or cable
Undecided	56% female	Skewed towards lower social classes	Skewed towards lower-income households	35% currently subscribe to satellite or cable

Source: The Henley Centre, Media Futures 1999

all. Another 29% were sitting on the fence and hadn't decided. The largest number (45%) claimed they wanted more than the currently available number of channels. Figure 4.6 shows that those who do want more channels are from younger, more affluent and upmarket households, making them lucrative targets for the digital operators. Perhaps more importantly, over two thirds of these respondents do not already subscribe to satellite or cable services. From this evidence, the market looks fairly promising for digital operators. However, those who are undecided about digital TV tend to come from lower-income households, indicating that price could be a critical factor for the digital operators in luring this group. The issue of pricing will be looked at later on in the chapter.

To give us an idea of the content that consumers would like to see, we gave our *Media Futures* survey respondents a list of genres and asked which three they would like to see more of, and which three they would like to see less of.

From figure 4.7 it can be seen that people claim to want more of the sort of programming that traditionally carries higher costs, such as recent films (66% of respondents), drama (55%) and nature (45%). We also asked respondents which programmes they typically wanted less of, and found, unsurprisingly, this produced an inverse of their previous answers. They wanted less of the 'cheap' programming that is often imported, such as talk shows and American programmes. 51% of respondents claimed they wanted less sport, though this is largely accounted for by the difference between the sexes. 38% of men actually wanted *more* sport – their fifth most wanted genre.

Many commentators are of the opinion that there is no killer application for digital television, unlike analogue satellite TV, which has benefited hugely from offering superior sports coverage and movies. From our genre analysis, it can be seen that, while opinions were spread over a number of genres, recent films do seem to be the most likely item to drive subscriptions to digital. Two thirds of all respondents chose this option, and nearly three quarters of those who expressed an interest in multi-channel television made this their first choice (% more channels column).

Figure 4.7 Films are a key driver

Genres wanted more of	% all	% no TV or current channel number	% more channels
Recent films	66	56	73
Drama	55	62	50
Comedy	53	47	55
Nature	45	50	40
Real life	40	37	39
Classic films	39	46	35
Educational programmes	38	42	35
Specialist programmes	37	38	35
Popular music	33	28	36
News	30	35	26
Sport	24	18	32
Classical music	23	31	19
Children's TV	20	18	18
Talk shows	12	11	12
Religious programmes	11	12	9
American programmes	10	7	12
Pornography	9	3	14

Source: The Henley Centre, Media Futures 1999

Figure 4.7 also shows 'genres wanted more of' by those who wanted more TV channels (% more channels), compared with those who didn't (% no TV or current number of channels). This was largely determined by the age of the respondents. Those who wanted more TV channels were younger and placed an emphasis on comedy, popular music and sport and were less interested in drama and classic films. It could be possible therefore to lure those respondents who claim not to be interested in more channels by emphasising the content of those programmes they enjoy. For example, ONdigital could benefit from promoting its drama and classic films, both highly rated by this group. The danger of this strategy could be that, whilst this target market may *want* these extra genres, it may not be prepared to take (and pay for) extra channels.

Furthermore, we must be cautious about interpreting consumers' claims about preferred programming genres. For example, people may not own up to wanting pornography or mindless talk shows. It could be argued that Channel 5 has thus far built up its audience through a more 'downmarket' type of programming, thereby proving its appeal. However, Channel 5 is a free-to-air station and it is doubtful that people would want to pay for a diet of programme genres that they don't openly favour. Unfortunately for broadcasters, consumers tend to report a liking for programming that is expensive to make or acquire, eg, recent films, nature and drama. Their tastes will no doubt have been influenced by the traditional system that has ensured large budgets to a few chosen terrestrial broadcasters.

Pay TV paradox

We attempted to gauge the consumer's willingness to pay for digital TV services by outlining six different digital packages (see figure 4.8a).

To get around the issue of lack of experience regarding digital TV, we offered consumers the choice of six scenarios for TV packages they could potentially receive in future. It was explained: *"With the launch of digital TV you will be able to watch more new TV channels. Below are examples of different channels and their cost."* Viewers were then asked to rank their choices. (They were informed that they would still have to pay a licence fee for all services.)

Figure 4.8a Digital television scenarios

Package A

5 Channels

- BBC1
- BBC2
- ITV
- Ch4
- Ch5

Cost: free

Package B

10 channels

- All channels in option A
- BBC News Channel, BBC Classics Channel, BBC Adult Learning Channel, ITV2
- Option of a movie channel from Channel 4 for which you would have to pay extra

Cost: free, though you will need to buy or rent a Set-Top Box or a digital TV set

Package C

15 channels

- All channels in option B
- Classic drama, eg, Carlton Select, UK Gold
- Classic movie channel
- Entertainment channels
- Music channel
- Food channel

Cost: £9.50 a month. You will also need to buy or rent a Set-Top Box or digital TV set

Package D

18 channels

- All channels in option C
- 2 premium movie channels
- Sports channel

Cost: £19.50 a month. You will also need to buy or rent a Set-Top Box or a digital TV set

Package E

30 channels including:

- All channels in option D
- 1 extra premium movie channel
- 3 sports channels
- Entertainment channels, eg, Sky One
- Music channels, eg, MTV, The Box
- Themed channels, eg, Sci-Fi Channel, History Channel etc
- News channels, eg, CNN, Sky News

Cost: £29.50 a month. You will also need to buy or rent a Set-Top Box or digital TV set

Package F

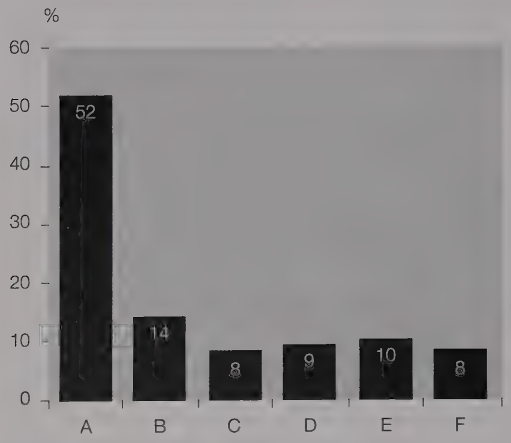
200 channels including:

- All channels in option E
- 5 recently released movies that you could watch any time you want
- New dedicated sports channels, eg, Manchester United channel, Sports News channel
- Advanced services, such as home shopping from high street retailers, such as HMV and Thomas Cook, from your TV set
- Home banking from your TV set
- Advanced programme guide on your TV with all-channel timetable to help you find the programme that interests you

Cost: £39.50 a month. You will also need to buy or rent a Set-Top Box or digital TV set

Source: The Henley Centre, Media Futures 1999

Figure 4.8b Over half of respondents choose the status quo First choice from package options



Base: All respondents
Source: The Henley Centre, Media Futures 1999

Figure 4.8b outlines consumers' first-choice preferences for the packages. Over half (52%) of consumers chose package A, which represented the current terrestrial package of 4-5 channels and a yearly licence fee. This is twice the number who claimed they wanted the existing number of channels when cost was not mentioned (see figure 4.5). A further 14% wanted free-to-air services but were prepared to pay for a STB decoder (package B). Only 35% of respondents claimed to want a digital service that would entail regular monthly subscription payments (packages C-F).

This could explain the currently low penetration of Pay TV in the United Kingdom. When we asked respondents who hadn't already got cable and satellite why they had not subscribed, 34% claimed that the main reason was because it was too expensive.

Pay TV has been shown to be very price-sensitive. For example a trial in Dumbarton by the cable operator, Telewest, which offered low-cost basic entry packages saw penetration rates rising to 50%. This is over double the current penetration rates for most cable services. However, it is important that consumers perceive they are getting something more for their money. From our research it is arguable that consumers do not know the true cost of programming, as they have received half of their traditional viewing from broadcasters funded by advertising. From the high churn rates that affect cable companies, especially amongst low entry packages, it can be seen that the consumer is not easily satisfied.

In short, there is a Pay TV paradox. Many consumers want more TV channels, filled with high-cost original programming such as recent films, real life and nature programming, but most consumers do not like the idea of ongoing monthly subscription costs.

As seen in section 4.1, there has been no increase in consumers' viewing time, despite the increasing availability of channels. This clearly means that, as Sky learnt in the early years, advertising revenue cannot be the main source of income for new channels. With new satellite subscription tailing off in the last few years and consumers showing resistance to even low-level subscription packages compared with free services, The Henley Centre believes that digital operators will have to develop much more flexible payment systems.

Content: supply-side consequences

From looking at consumer behaviour towards multi-channel television, three main trends can be identified.

- the threat of the free(to air) rider
- potential growth in 'pay-as-you-go' television
- the coming of age of TV marketing

Free-to-air-riders

Arising from the resistance to subscription payment for multi-channel television, we predict that many consumers will be attracted to the free-to-air digital services provided by the BBC and ITV. Our research found that 15% of consumers would choose to receive these services merely by paying £200 for a STB. This would not require them to subscribe to the Pay TV services. The problem is likely to affect DTT in particular, as free-to-air-riders are unlikely to purchase a satellite system in order to see the same free services that are available on DTT.

Digital operators will incentivise customers to take up their services by offering subsidised STBs. (An unsubsidised box could cost £400.) These offers will no doubt have minimum service contracts, requiring the consumer to subscribe for a certain amount of time in order to receive their subsidy. While this will initially help drive subscription, if the programming is not deemed worthy, DTT and perhaps even satellite could be plagued by people switching out of the Pay TV services, and only taking the free- to-air channels.

Pay-as-you-go television

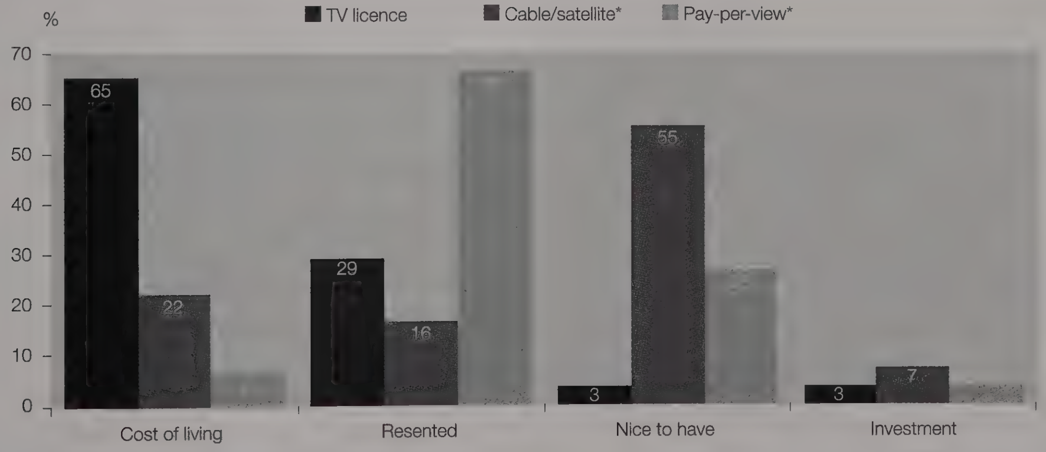
With payment for digital TV seeming to be such a stumbling block for consumers, we asked them to classify their payments for television, other media and related services. The classification options were:

- cost of living
- resented
- nice to have
- investment

From figure 4.9 below, it can be seen that while the TV licence for most consumers is thought of as being a 'cost of living' payment (65%), satellite and cable TV (classified by those who subscribe) is principally thought of as being 'nice to have'.

When this is compared with the classification of other media-spend, it can be seen from figure 4.10 that other media which consumers principally rate as 'nice to have' include newspapers (60%), magazines (91%), video rental (81%) and cinema (56%). All these media are generally consumed on a 'PAYG' basis. Imagine if you required consumers to pay for a month's cinema-going in advance, or

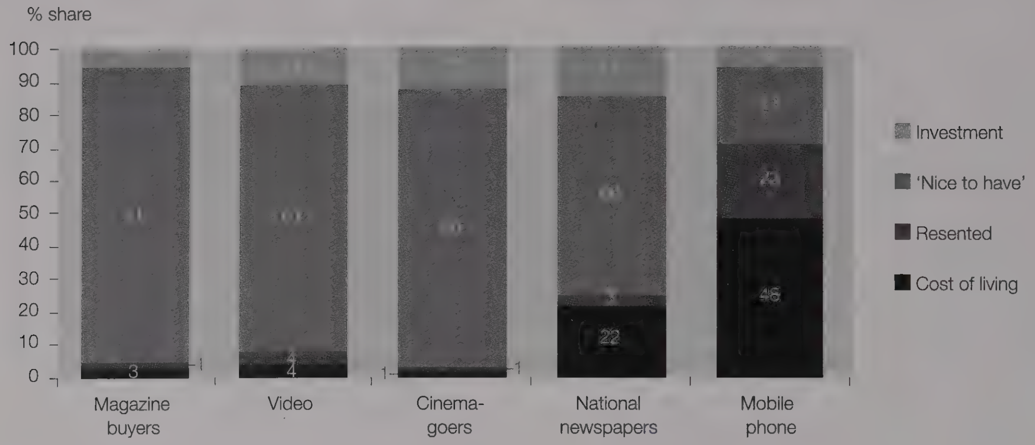
Figure 4.9 TV licence is a cost of living; cable and satellite are 'nice to have' How do you feel about spending money on the following?



Base: Excluding not stated/don't know
Source: The Henley Centre, Media Futures 1999

* Cable/satellite subscribers only

Figure 4.10 Much media spend is 'nice to have' How consumers classify spend on stated media



Base: All respondents
Source: The Henley Centre, Media Futures 1999

even a month's video rental! While magazines can be bought through subscription, most are sold over the counter on an individual basis.

The two main subscription-based comparisons are the TV licence and the mobile phone, which are seen by many consumers as a 'cost of living' expenditure (65% for the former, 46% for the latter). Monthly subscriptions are not the best way of luring customers to a product which they think is 'nice to have'. Interestingly, all the main four mobile phone companies are now expanding penetration by using flexible PAYG deals in addition to their normal subscription options. The companies will hopefully be able to capitalise on those consumers who think that mobile phones are 'nice to have' and therefore may not think it essential enough to take out a monthly subscription.

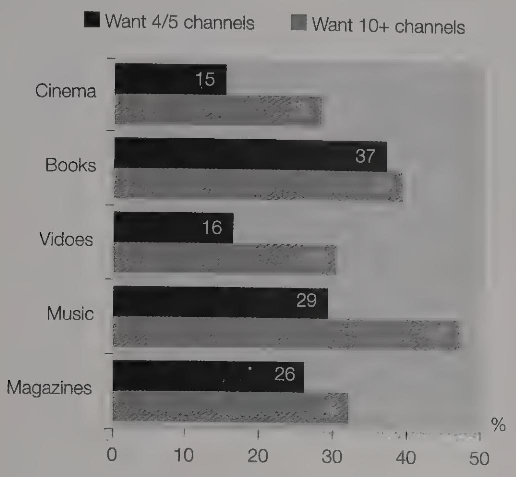
Thrill me, don't bill me!

Digital TV operators could increase penetration and address consumer resistance to subscriptions by offering more flexible payment methods. This would reflect the fact that consumers of 'nice to have' products and services would prefer to feel the expenditure is a treat, rather than a monthly bill.

Currently, there is very little flexibility in accessing Pay TV due to bundling and buy-through policies. Consumers have to subscribe to a basic bundle of between 10 and 30 channels. They have to 'buy through' these channels before being allowed to subscribe to premium channels, such as sport or movies. This policy may work well for heavy TV consumers who enjoy a large diet of different genres and channels, but would not suit the average viewer who might want to be more selective in the channels or programming that he would want to subscribe to.

The 44% of consumers who claim an interest in more channels would be excellent targets for PAYG services. Figure 4.11 shows that this group tends to spend a higher proportion of its money on cinema going, books, videos, magazines and CDs, all of which are purchased on a PAYG basis. In order to compete for this spend, Pay TV operators must match their PAYG terms.

Figure 4.11 Multi-channel enthusiasts currently spend more on other media % respondents spending £5+ per month on selected media



Source: The Henley Centre, Media Futures 1999

From the findings of the *Media Futures* proprietary COMMET Model in chapter 1, it can be seen that those media that enable the consumer to *choose* their content are on the increase, compared with media where content is dictated. By employing flexible payment methods, TV could also become a true choice medium, enabling individuals to package their own particular channel requirements.

Marketing TV – your flexible friend!

However, PAYG or 'flexi-pay' television will need to be backed up by effective marketing campaigns if it is to be accepted by the consumer. As we will see, there is currently high resentment of pay-per-view (PPV) schemes on top of monthly subscription rates.

When we asked existing Pay TV subscribers how they regarded PPV events, over two thirds of consumers who had used PPV resented the spend. However, it should be remembered that this spend would be on top of the current monthly subscription charges. If consumers received lower or even no monthly subscription charges, their perceptions could be very different.

We tested reaction to PPV television by informing all respondents that some TV companies will charge on a 'pay-as-you- view' basis. We then asked them how likely they would be to pay £5 to see a favourite sporting event, recently released movie, or a concert by one of their favourite groups. Figure 4.12 below shows that, initially, only between 17%-21% of respondents were willing to pay £5, although, against this average, more than twice as many 16-24 year olds claimed to be willing and a third more 25-34 year olds.

Although even these relatively low numbers of consumers could provide reasonable revenue streams for Pay TV companies (Sky made £17 million from its limited PPV events in 1997 – Morgan Stanley Dean Witter, October 1997), digital TV operators have the opportunity to use marketing techniques to take this proposition a stage further.

TV marketing will need to come of age

Marketing campaigns could include:

- **Relationship marketing ~** by building up a profile of consumer viewing and watching habits, companies could target consumers

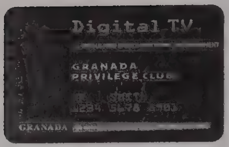
Figure 4.12

How likely to pay £5 for...	% very/ fairly likely	Index 16-24	Index 25-34
Favourite sporting event	17	221	136
Recently released movie	17	209	135
Concert	21	198	125

Source: The Henley Centre, Media Futures 1999

with forthcoming programming that they would be interested in. For example, *ER* viewers could be targeted with programmes starring George Clooney, or sci-fi buffs could be targeted for the Sci-Fi Channel.

- **Flexible payment** ~ non viewers of key channels or programming could be lured with flexible payment schemes such as subscription to 10 episodes of a programme or a week of a particular channel. Payment doesn't simply have to be mass subscription or a pay per single view.



- **Promotions/loyalty schemes** ~ broadcasters can offer promotions to encourage people to subscribe to particular programmes, channels or even packages. They could even tempt viewers with loyalty schemes – the more they watch the more they save. Cross-related offers could be used between programmes or channels. For example, 50% discounts could be given off subscription to the Cartoon Channel if you subscribe to the Disney Channel too.

TV marketers will need to be able to use the traditional tools of marketing, rather than simply using on-air promotion to advertise their programming. While analogue TV PPV events often relied on people phoning up to get authorisation and being sent encryption cards, the use of a return message loop will mean consumers can simply use their handsets to order programming. Cable & Wireless has already found that in areas where viewers can order PPV movies over their handset, buy rates are three times that of areas where a phone call has to be made. With superior technology already in place, cable companies could capitalise on this advantage to offer the consumer the ultimate in choice.

Television viewing and the future of the TV channel

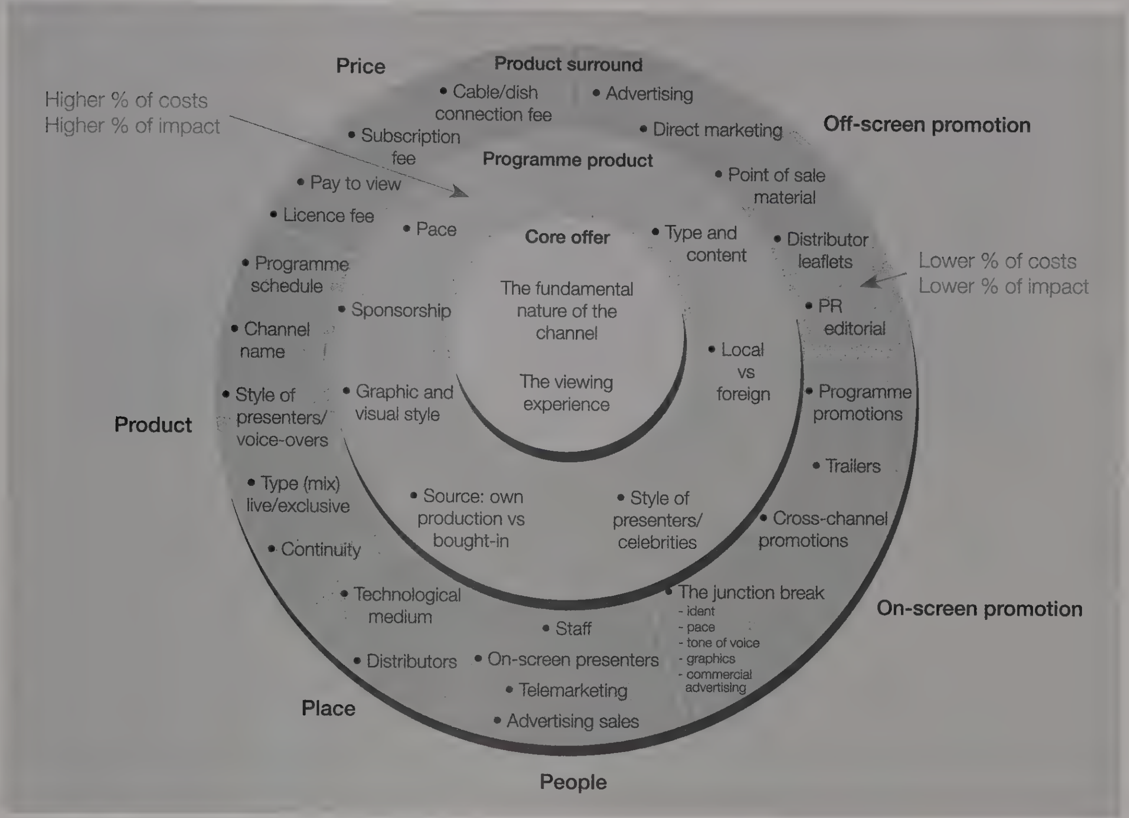
In future, many pundits suggest that people will not know which platform, or even which *channel*, their favourite programmes are on. With EPGs to navigate around the digital universe, consumers can seek out the programmes they want rather than having to flick through channels. As technology advances, these guides could even learn what type of programming the viewer prefers and construct individualised schedules. The fantasy TV channel would come of age! With the growth in PAYG services, subscribers would simply pay for what they watched rather than subscribing to many different channels that they don't want.

The demise of the channel brand could be facilitated by a fragmented supply chain as producers of content will be eager to access the viewer in as many different ways as possible. For example, Premier League football matches or even Friends could be offered on many different channels as a PPV service.

The TV channel as a brand

However, before we condemn the TV channel to a swift demise, we need to investigate the channel brand in more depth and explore how consumers relate to the programmes and channels they watch. Sue Rose, a strategic planning consultant at Lambie-Nairn (a corporate branding specialist for the information age), carried out a study on television branding for her Masters degree in Marketing at Kingston University (1993). She concluded that television has the characteristics of a service, being intangible, inseparable and variable in delivery. The core product attributes are linked to the attributes of its programmes. Brand loyalty in its

Figure 4.13 TV channel as a brand The Lambie-Nairn television brand model



Source: Sue Rose/David Robinson, Lambie-Nairn

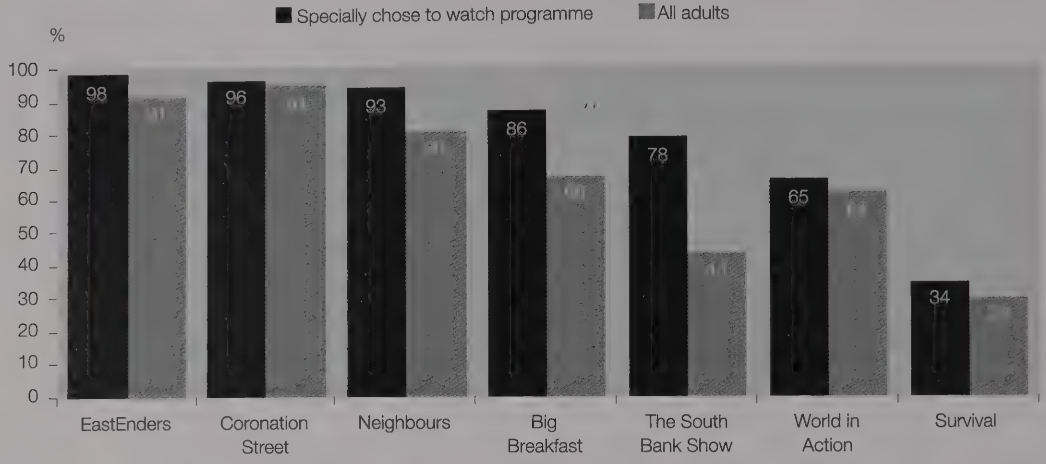
© 1997 Lambie-Nairn

traditional sense does not apply to television stations, with viewers instead being loyal to programmes. However, repeated attachment to programmes will result in regular use of the channel and feelings of satisfaction and attachment to it. It is this 'channel effect' that works to predispose the viewer towards programmes on a channel. Programmes and channels therefore have a symbiotic relationship.

Rose's model of television branding has been subsequently revised (1997) to accommodate market changes mainly around the product surround (figure 4.13), although the fundamentals remain the same. The core is intangible, representing a service, and is delivered via a set of programmes. It is these programmes that lend a more tangible definition to the channel, thus they are given their own separate circle. The branding of the channel is the outer circle, though unlike FMCG products, this could be stripped away and the channel would still have an identity of its own, giving programmes value in their own right. Rose (1993) postulates this is why the broadcaster is tempted to put more effort into promoting of programme identity rather than the channel. She suggests that it is more important, however, to look at the greater composite rather than the individual effects of programmes upon perceptions of the channel's fundamental nature.

As part of our *Media Futures* programme, we asked respondents to tell us which channel a list of key programmes was on. From figure 4.14, you can see that, for many programmes, there is a strong association with the channel amongst viewers for key programmes. For

Figure 4.14 Consumers identify popular programmes with their associated channels % respondents who correctly identified on which channel stated programmes are broadcast



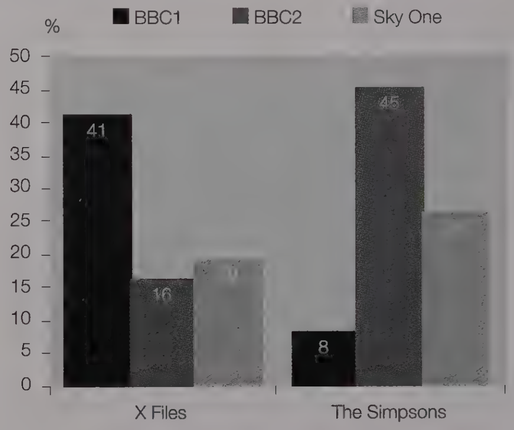
Base: All respondents
Source: The Henley Centre, Media Futures 1999

example, although only 43% of respondents knew *The South Bank Show* was on ITV, this rose to 78% for those respondents who had claimed on an earlier survey that they specifically choose to watch the show. However, for lesser-known programmes, the association is not so strong. Only 29% knew which channel Survival was on, rising to just 34% amongst those who claimed they specially choose to watch the programme. By using an EPG or intelligent agent to construct a viewer's schedule, the associations between programmes and channels could diminish still further.

This process will be exacerbated by programme makers trying to maximise revenues and broadcasting programmes on more than one channel, often on a subscription platform for a first run. For example, we can see in figure 4.15 that viewers are not certain of the channel for the *X-Files* or *The Simpsons,* both which have appeared on satellite/cable services before being shown on terrestrial television. High profile programming, such as *Coronation Street* or *Friends* could easily take viewers with it, if it moved from one channel to another.

The reason why channel brands often emphasise their programming rather than the identity of the channel can also be attributed to the economics of the industry. For example, from Rose's model in figure 4.13, you can see that not only do programmes have a higher percentage of impact, but they make up a higher percentage of the cost, employing the famous 80:20 marketing ratio – about 80% for programming, compared with 20% for the product surround, which is made

Figure 4.15 Dual broadcast dilutes the channel/brand association On which channels do the following programmes appear?



Base: All respondents
Source: The Henley Centre, Media Futures 1999

up of the station identity, eg, graphics, on-screen continuity and promotional materials. This is quite the opposite of FMCG goods, where the actual product often represents 20% of the costs, compared with 80% for the product surround.

Will the channel brand survive?

This section will examine the arguments for and against the survival of the channel brand.

The following forces will help maintain the importance of key channel brands:

- the channel as a beacon
- the inheritance model of viewing
- economies of scale
- effective marketing
- the weight of advertising

The channel as a beacon – inheritance broadcasting

The channel brand image is that extra hook that encourages the viewer to watch in the first place, although the perception of that channel will not keep hold of the viewer for the whole programme if it does not come up to scratch. This hook will continue to be a powerful weapon; it is well-known in marketing that it is much easier to keep your existing customer than to find new ones.

Even when one looks at the Internet, which has Web browsers and agents to help people navigate its enormous universe, we are beginning to see the importance of portal sites. These portals act as magnets to attract Internet users by offering them complete services such as Web browsers, news and shopping services all on one site. Portals are created by content owners collaborating to provide users with all the services they want 'under one roof'. Programme schedulers also employ this tactic to stop viewers moving off to other channels. They can do this by starting programmes just before those on other channels (so it is too late to hop over), or by using one or two magnet programmes to draw people into their evenings schedule (eg, *Coronation Street* draws viewers into a night with ITV, or *Friends* draws viewers into Channel 4's comedy night). This is known as the inheritance model of broadcasting (ie, programmes inherit audiences from the previous programme) and explains why programmes that swap channel can often increase ratings substantially (eg, *Absolutely Fabulous* from BBC2 to BBC1).

Expertise and economies of scale

Current channel brands such as ITV or BBC1 have great advantages in economies of scale. Their large viewing shares mean they can command large programme budgets, so their dominance is self-perpetuating. This point was made by two of the industry experts with whom we conducted executive interviews for *Media Futures 1999:*

Nik Wilkinson (Media Manager, Birds Eye Walls): *"There is huge resilience in the main terrestrial broadcasters as they have this critical mass of audience which generates the commercial revenue to fund bid programming, allowing them to maintain audience levels."*

Alan Howden (Head of Programme Acquisition, BBC): *Any terrestrial broadcast channel could easily outbid any cable channel for content in the current ecology and there's no reason to believe that digital channels, other than the established terrestrial channels that are converting to digital, would be in any different position.*

Channel providers could strengthen their economic muscle further by selling their programming overseas. This advantage, combined with their expertise in programme making, would ensure that they continue to create high-quality content which they will use to draw viewers into the channel.

Effective marketing

With more and more content, consumers will not be able to distinguish between the thousands of different programmes available. They will use the channel name as a guide to tell them something about a programme they have not heard of. Broadcasters will become adept at using the channel brand as a corporate brand that reflects all their programming. Corporate branding can be a cost-effective way of reaching the consumer. For example, British Airways or Sony can advertise their corporate brand in a way that will benefit all their different products and services. Channel brands, just like corporate brands, can pass on the goodwill from one programme to another. Just as Sony's reputation for television may give it a good reputation for videos, the BBC's reputation for news contributes to its good reputation for documentaries and even drama. ITV has often complained that people attribute its dramas to the BBC due to the power of the latter's brand.

The weight of advertising

EPGs, the so-called viewer's 'intelligent agent', will have to compete strongly against on-air promotion (entailing millions of pounds of free air-time) and other marketing campaigns funded by channels. For example, a trailer in the middle of *Coronation Street* for a drama at 9pm on ITV will compete with any possible recommendation made by the viewer's EPG.

The following forces could lead to the demise of the channel brand:

- Killer content on the loose.
- Brand extensions leading to shuffle-cast programming.
- The effect of the EPG.

Killer content on the loose

Certain programmes with large loyal followings will not need the weight of the channel brand behind them to be successful. There could even be a bidding war for the UK's top 10-20 shows. Some programmes, eg, *Coronation Street* for ITV, or *Friends* for Channel 4 could be said to contribute to a large part of the channel brand's power. These programmes could break free from the channel and earn extra revenue from early-release windows. This could be on a PPV or pay-per-series basis. While ITV is unlikely to let *Coronation Street* be used in this manner, channels that do not own exclusive rights or make the content themselves, will not be able to stop the programme makers maximising revenues by trying to get on as many platforms as possible. This strategy is already starting to develop, as we have seen with programmes such as the *X-Files* and *The Simpsons* launching on Pay TV before going on to terrestrial.

These programmes are powerful enough to justify their own marketing campaigns to alert the viewer as to their whereabouts in the digital universe, rather than having to depend on viewers locating them through a listing guide or finding them casually on their favourite channel.

Brand extensions

The main channels, such as BBC and ITV, are extending their brands over several new channels. This could damage channel brands by diluting the brand's identity with more and more variants.

TV channel brands will have to make sure that their image is clearly defined, with a coherent message and well-defined target market, in order to achieve success in the multi-channel era. While the BBC and ITV are known for their current programming strength, they must make sure that their new off-shoots do not detract from this image and are able to complement the overall brand image. Though we have already discussed the advantage of corporate brands being able to pass on goodwill over multiple brands, it can also work in the reverse. A poorly executed or targeted ITV2 or BBC Choice could weaken the overall brand.

Shuffle-cast programming

Many of the new brand extension channels eg, BBC Choice and ITV2 will be made up of the same content as the parent channel, but on a time-shift basis. For example, *EastEnders* could be broadcast an hour or even a day later on BBC Choice. This is known as shuffle-cast programming and is a cost-effective way of making new channels, which can help viewers catch their favourite programmes. However, this method could start to break down the inheritance model upon which the parent channels have come to rely for large audiences. For example, BBC1 may not be able to rely on drawing in a large audience to *EastEnders* at 7.30pm and then keeping it for the rest of the evening if the viewer knows he can catch any of the programmes at a later date on BBC Choice.

It is likely that these brand-extension channels will show repeats from several days ago, rather than earlier that same evening. This would reduce the risk of losing too many viewers from the main channel's schedule.

Electronic Programming Guides

As we have already mentioned, the channel brand could be weakened by EPGs. Although the early versions of these are no more than glorified listings magazines, with the ability to list programmes by genre as well as channel, they will soon develop facilities such as reminder systems, letting the viewer programme the time of their favourite programmes so that the EPG can automatically turn the TV to the appropriate channel at the designated time. Systems are also being developed to let EPGs become a viewer's 'intelligent agent' whereby it will work out what type of programming the viewer would prefer from past behaviour and preferences and recommend a schedule from all the channels available.

Taken to its logical conclusion this would remove the need for channel brands completely; people would have their own personalised channel drawn from a pool of programmes broadcast on unnamed channels.

In summary, there are some powerful forces pointing to the survival of the channel brand. However, the proliferation of channels means that extra investment in marketing is necessary if a channel is to achieve sufficiently strong branding to give it a competitive edge.

The effect of modes

In order to think about how consumers will view in the multi-channel universe it is worth considering the effect of viewing modes, as these will also tip the balance between channel power and programme power at various times.

Modal TV viewing

Media Futures asked people to define their time spent watching television. Respondents were split between defining this activity as 'pottering time' (that is, something you do to pass the time) and 'quality time' (something that you choose to do because you enjoy it or think it is worthwhile). The split between these definitions is no doubt due to the fact that viewers regard some of their viewing as pottering and some of it as quality. Pottering and quality modes could prompt differing viewing strategies from consumers.

Channel brands and pottering viewing

'Pottering viewing' will be done casually by the viewer, with no particular target in mind. Viewers could locate programming by surfing channels, glancing at the listings magazine or even using the EPG. Large channel brands that are part of a consumer's preferred portfolio will be particularly strong at times of 'pottering viewing'. This emphasises the importance of channels having clearly defined images.

Channel brands and quality viewing

Channel brands will have to fight much harder to maintain viewers intent on 'quality viewing'. Viewers will seek out the particular programmes they want and will be less influenced by the channel that they are on. Providers of killer content may be able to charge a premium to quality viewers, offering their favourite programmes on a PPV basis. 'Quality viewers' may use EPGs to help them locate programming, perhaps requesting something of a specific genre or subject matter that they want to watch.

Supply-side effects

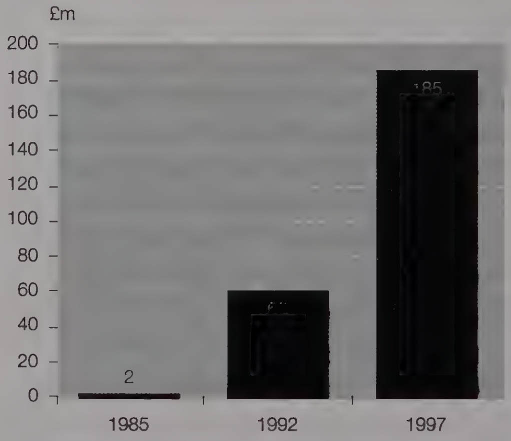
The scramble for rights

In the past broadcasters have used their dominance in the market place to drive down programming costs. For example, the BBC and ITV used to form a cartel, to ensure that they did not have to bid against each other to secure football rights. With a limited supply of broadcasters, content providers could do little else but accept the prices offered.

The advent of Pay TV started to place power in the hands of the content providers. When Rupert Murdoch realised the importance of sport for Sky Television (he described it as the 'battering ram' of his Pay TV services), it had a dramatic effect on the price paid for key sporting rights. Figure 4.16 shows the rising cost of securing rights for the televising of the football Premier League. Sky paid around £80 million per annum for a five-year deal in 1992 after a bidding war, and in 1997 Sky paid a record £185 million per year after competing with other media giants, including a joint bid by the Mirror Group and Carlton Television. Digital television will further reduce the barriers to entry in the market, providing still more competition to bid for key rights.

Sporting rights will not be the only area to see dramatic increases in the value of content, however. When ITV was defending its airtime inflation to advertisers and their respective agencies it pointed out that movie, premieres doubled in price between 1995 and 1997, up to $4 million per movie. Even soap operas such as *Home and Away* doubled in price over

Figure 4.16 The value of content £ million per annum for premier league sports rights



Source: Regulatory Policy Research Centre 1997 the period. Content producers are not immune from this shift in the balance of power. American movie, and TV stars are commanding larger and larger fees as they see demand increase. For example, the cast of *Friends,* the popular American situation comedy, negotiated a fee of $1 million dollars per episode.

TV companies have began to appreciate the importance of owning programming rights in the ever-competitive market. Whereas in the 1980s there was a trend to commission programming from independent producers (partly due to government regulation which stated that at least 20% of broadcasters' output should be independently produced), there is now more of a trend back to the one-stop shop. For example, Carlton Television, today the largest ITV company, started out by commissioning its programming from independents. Its successful bid to buy Central Television (the Midlands ITV franchise) in 1994, was motivated by the appeal of Central's excellent facilities and track record for making original TV programmes. Its parent company, Carlton Communications, has also been busily buying TV and movie, rights to give it one of the largest programming libraries in the UK after the BBC.

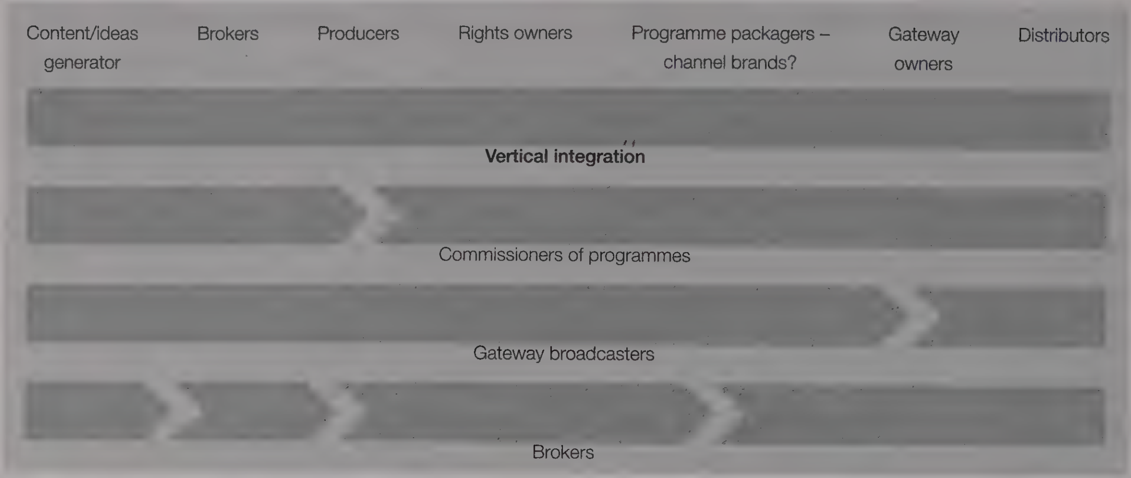
The most visible development of this trend has been BSkyB's recent bid for Manchester United. Many commentators before the bid spoke of the danger of Sky losing the rights to the Premier League when its current five-year contract expires. If the bid is cleared by the Department of Trade and Industry (and it is difficult to see how it could block it), Sky will have secured access to the games of Britain's most popular football club. Sky will also strengthen its hand when the Premier League rights come up for grabs in 2002. With millions of Manchester United fans in the UK and abroad, Sky can use its ownership of the club to launch sports channels and potentially lucrative PPV services on its channels. In its wake, many other media owners are thought to be in negotiations, scrambling to own the rights to Britain's most popular football clubs.

This trend will continue, with media companies investing in audience-pulling content. Not only will sporting rights and ownership be snapped up, but media companies will be keen to own rights for as much destination programming as possible, including traditional TV content such as drama and soap operas and even of film companies, music companies or recording artists in order to receive revenue from subscriptions or PAYG. With fierce competition, the only way to secure these rights could be ownership of the content. Media companies will have to compete with the current content owners and brokers, however, in an increasingly fierce market.

The changing TV supply chain

Television in the United Kingdom has traditionally been vertically integrated. For example, the BBC often generates, produces, packages and broadcasts much of its programming using only internal resources (see figure 4.17 – 'integrated'). In recent years, the amount of programming commissioned from independent production companies has increased. Looking again at figure 4.17, the second arrow, 'commissioning', indicates the approach taken by Channel 4, for example. Channel 4 commissions independent companies to make specific programmes but, once produced, Channel 4 owns the rights to these programmes and then broadcasts them and/ or sells them on to other channels.

Figure 4.17 The changing structure of the TV supply chain: the end of vertical integration?



Source: The Henley Centre, Media Futures 1999

The ever-expanding bandwidth from satellite, cable and now digital compression will paradoxically encourage more vertical integration (eg, Sky's takeover of Manchester United), but also continuing fragmentation of the supply chain. For example, many of the channels on the new digital platforms, as on the current cable and satellite channels, are simply bought from other producers, who are also at liberty to sell them to other providers. This is demonstrated well by the BBC's recent decision to make its programming platform-neutral, that is to supply to terrestrial, cable and satellite digital platforms. The broadcaster Sky will not have exclusive rights over this channel but will merely act as a gateway for it (figure 4.17 – 'gateway'). Hollywood film companies have realised they can increase revenues from their films by offering non-exclusive deals to Sky in the UK, and also by selling them to cable companies. This trend will continue, with Sky Digital, ONdigital and digital cable services often being used as a gateway for other media companies' programming.

Broadcasters will also have to negotiate with brokers who will aggregate content from other sources in order to sell production and broadcast rights to media companies. This fragmented supply chain is demonstrated by the arrow marked 'broker' on figure 4.17. The Milan-based sales group Media Partners would like to launch a new European Super League in 2000 featuring 36 European clubs. The company would broker the rights to the Euro league games for media companies. In fact, the Premier League could be thought of as a broker between the clubs and media companies. Its dominance in UK football is currently being examined by the Office of Fair Trading.

Advertisers and their agencies could take advantage of the more flexible supply chain and become directly involved in the production of content, rather than simple spot advertising or even sponsorship. Advertisers could construct the type of programming specifically targeted to their customers. This is not a new idea, however. Soap operas got their name from the fact that they were commissioned by the manufacturers of the big detergent brands. The quiz show *Wheel of Fortune* was also developed through Initiative Media for Unilever. The growth in bandwidth could fuel similar developments in programming. We shall return to this point in section 4.4 when previewing the future of advertising in the digital age.

In summary, although competitive pressure will prompt more vertical integration, this will co-exist with many different forms of supply for television programming. This will mean that broadcasters will range from full-service operations, to commissioners, to simply channel packagers or gateways to other people's programming. This flexibility of the supply chain could revolutionise how consumers perceive and value broadcasters and the television channels they produce.

Digital TV and interactivity

What is interactivity?

Many commentators have remarked that digital television, in terms of programming, does not have a killer application. Its analogue Pay TV predecessor (satellite and cable) already offers the consumer exclusive sport and movie, channels, for example. Where digital *can* differentiate itself is in offering customers advanced interactive services. These were only available in a very crude form, if at all, on analogue. While interactivity may not motivate initial digital take-up, it could potentially be a latent killer application. As the previous edition of *Media Futures* (1997) argued, social trends such as time-squeeze, life management choices and growing confidence in technology have prepared the ground for interactivity and bode well for its future popularity with consumers.

It could be argued that we do, in some ways, already interact with our TVs. Many households watching the England/Argentina penalty shoot out during the 1998 World Cup would not have considered it a totally passive experience! However, up until now, the television has not been able to register our responses. With the introduction of digital TV, consumers will be able to send signals back to broadcasters either via the cable network, or using a return telephone line with the modem that will be built into digital STBs or IDTVs.

Broadcasters will be able to offer interactive services that broadly fit into four categories:

- entertainment
- communication
- information
- transaction

Entertainment

Television has always primarily been an entertainment medium. In our *Media Futures* consumer survey, we asked consumers to pick which medium they would use for each of a variety of different scenarios. Television unsurprisingly tended to be picked for entertainment-based options, eg, 'I would like to be entertained for an evening'. Interactivity will be able to offer enhanced entertainment services such as:

- **Interactive programming** ~ this would allow consumers to respond to actual television programming. For example, the production company Victorial Reel has produced interactive rugby matches where the viewer can select different camera angles, background music and even different commentators. In the past, broadcasters have also experimented with interactive drama and entertainment programming, allowing consumers to choose the outcome of a story by giving them four different options at key points. In addition, there is potential for audience debate through interactive voting mechanisms, or for audience participation on quiz shows.

- **Supplementary programme entertainment ~** viewers could enhance their enjoyment of a programme by calling up information about their favourite stars. Or they could get a synopsis of a football match if joining it halfway through. These services could be viewed simultaneously with the programme, with a separate box displaying the information requested. Digital TV could also offer interactive betting, allowing viewers to bet on the outcome of sporting events they are watching.

- **Added-value entertainment services ~** digital TV will be able to offer consumers ancillary entertainment services on top of normal programming. For example, video games could be played on screen, possibly against other viewers.

Information

TV has always played a role in supplying people with information through news, documentaries and consumer magazine programmes. The provision of Teletext services over the past 20 years has allowed viewers to seek out, albeit in a crude form, a variety of general news, sport, weather and commercial information. The power of TV as an information medium should not be underestimated. In our sample over half (53%) of consumers choose Teletext to pick up their sporting results.

Digital television will allow for more advanced information services. Graphics will be a vast improvement on the clunky Teletext system, being more in the style of the Internet. One of the main uses of digital television will be to inform consumers of forthcoming programmes using EPGs. As the consumer can interact with the services, the EPG will not only be able to provide information by time, channel or genre, but will eventually be able to analyse consumers' viewing habits and suggest programmes or schedules. It could even switch over the TV channel at the appropriate time.

Digital television will offer information on a whole host of other sectors too, such as news, weather, products and services similar to those available on the Internet today. Digital technology also has the advantage of enabling the viewer to progress much more quickly through the pages than is the case with Teletext.

Communication

Digital television, like the Internet, could technically allow viewers to communicate directly via e-mail with other digital TV (or even Internet) users and also with broadcasters. Chat boards or news groups could be set up to enable people to talk to fellow fans of certain programmes, or be updated about the lives of their favourite stars. Communication would not have to be restricted to matters relevant to programming, however: viewers could communicate with product and service providers as well as *Friends*, families and colleagues in a similar fashion to current Internet services.

Transaction

The function that some of the digital television providers are most excited about will be the ability for viewers to purchase products and services from participating companies or other viewers. Viewers will be able to pay for their goods and services by either having items placed on their monthly TV bill, by using credit cards, or even by taking advantage of electronic money systems such as Mondex. This is where consumers load money (from their bank accounts) onto a microchip in a plastic card. Certain STBs and IDTVs will have slots for the electronic payment cards, allowing for an instant cash-payment method.

However, many of the above applications can also be used on the Internet, which, as the previous chapter showed, is achieving impressive growth rates that are forecast to continue. The Internet may seem to be the natural home for interactive services. So what can the TV, which is traditionally thought of as a passive medium, contribute to this area over and above the computer-based Internet? This section will address this question, and will also determine whether the most successful applications on TV are likely to be 'interactivity on TV' or 'interactive TV'. In other words, will they be Internet-type services that can be more conveniently accessed from the TV, or will they simply add interactive elements to the traditional TV environment, enhancing the programming that already exists on it?

Who will offer what

The sky may be the limit for digital interactive services but, as we shall discuss later, these are difficult to set up and take considerable time and investment. Forms of interactive services are being planned by:

BSkyB/British Interactive Broadcasting

Sky Digital on launch will offer:

- An EPG allowing viewers to navigate round the multi-channel universe and to list programmes by genre, channel or time. Additional features will be added enabling viewers to register their favourite programme choices. The TV could then alert the viewer to those programmes and even turn over to the relevant channel.

- Ability to order PPV showings such as NVOD or sporting events using the EPG.

A consortium of Matsushita, British Telecom, BSkyB and Midland Bank will offer interactive services through Sky's digital service. British Interactive Broadcasting (BIB) will be launched shortly after Sky Digital and will initially offer:
- information services such as those detailed in the previous section
- communication using electronic mail
- home shopping and banking services (although this could initially involve users actually ordering goods over the telephone)

Advanced services allowing the consumer to order goods and services through the STB and a dedicated phone line will not be available until well into 1999. At the time of writing, BIB had not signed any deals for the advanced services with retailers or banks. Those who come on board will have to use BIB's proprietary software (ironically called Open TV), which means they cannot use existing Internet content.

BIB hails its interactive services not as 'the PC on TV' but as 'the high street through your TV', offering superior graphics and easy handling compared with the Internet. The closed system is apparently justified on account of its enhanced ability to control access. This is deemed necessary to ensure a secure and trustworthy service for transactional processes.

Cable operators

Cable & Wireless has announced it will offer interactive services from the summer of 1999. Other large operators NTL and Telewest are also planning interactive services. Although their roll-out plans follow Sky, some operators have already signed deals with several retailers. Cable services will offer:

- Advanced transaction services using the cable network so that consumers will not need a separate return loop phone line.

- An open-access interactive system using Java. This system has been chosen by the Digital Video Broadcasting board and will allow for existing Internet content to be placed onto cable TV interactive services.

- Direct access to the Internet and e-mail through high-speed dedicated cable lines.

ONdigital/S4C digital networks

The digital terrestrial providers will, for the time being, only provide information services as the first-generation STBs do not have interactive capabilities. Teletext is also planning a much improved service with superior graphics and faster access than it currently offers.

BBC

The BBC will be upgrading its Teletext services to offer superior information services on its digital channels.

The BBC is also trialling Web-TV, owned by Microsoft, which allows viewers access to the Internet. It can be used in conjunction with programming content to produce cross-over programming. As previously described, this would allow viewers to get Web-based information about current programming.

What is different about the TV set?

The 12ft gulf – the differences between TV and the Internet.

Although we have argued that people have always interacted with their television sets, the provision of new interactive services offers a radical departure from how we currently use the television. Figure 4.18 contrasts a consumer's experience of television with that of interactive services via the Internet.

Figure 4.18 Television and the Internet

Television	Internet
Fast	Slow
Moving	Still
Noisy	Silent
Social	Individual
Serial	Unlimited
Lean back	Lean forward
One way	Interactive

Source: The Henley Centre, Media Futures 1999

Television, on the whole, is fast-moving and always accompanied by sound. By its very nature it is social, with the living room being far and away the most popular place for the television (see figure 4.19). It also acts as a social glue for society (see section 4.1). Interactive services, as characterised by those on the Internet, tend to be just the opposite – that is: slow, usually still (or at best with slow-moving graphics), no or limited sound and utilised by the individual.

Media academics describe television as having a linear format, or as being 'serial'. You turn it on and receive a sequential list of programmes on each channel that is formulated to reflect the time of day and the viewing audience. This is very different to most other media, including interactive services on the World Wide Web, which are technically unlimited, the user being able to search for what they want at a time convenient to them. Television is therefore traditionally a 'lean-back' medium, with the viewer letting his experience be determined by the broadcaster. Current use of interactive services using the Internet are, on the other hand, 'lean-forward', with the user taking control and, to a large extent, determining his own experience.

Television in its place

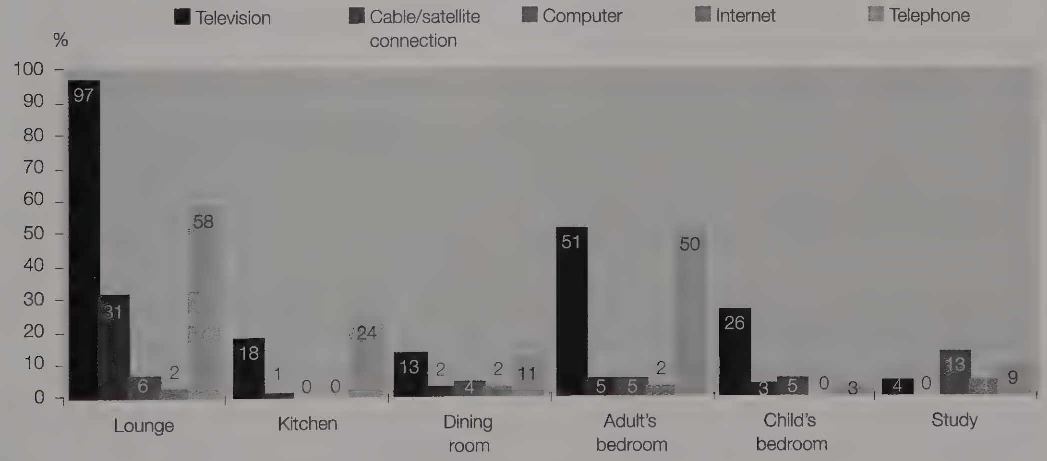
The predominantly social nature of television is demonstrated in figure 4.19, where we can see that 97% of consumers in our survey had a TV in the main living room. Although the overall penetration of the Internet is obviously much lower (15% in our survey), the graph indicates that the most popular place for a connection was in the study (4%), with only 2% of respondents having one in the lounge. The television is widespread throughout the house, with it being in more bedrooms than even the telephone, for example 51% of adults' bedrooms and over a quarter of children's bedrooms. While this gives digital TV providers the potential for widespread penetration compared with the Internet and even the phone, it should be qualified by another finding from our survey: the majority of respondents with satellite and cable TV had their connection in the lounge, with very low penetration elsewhere in the house. This is because each television needs a separate cable or satellite connection. Although viewers are able to connect their additional sets, they clearly have not yet chosen to do so in large numbers.

As far as digital TV is concerned, the viewer will need a separate STB for each television set. It will not be possible to run several televisions from one box. It is therefore highly likely that the main digital TV set will be in the lounge. Although ONdigital makes much of its 'plug-in-and-play' system (technically meaning that, unlike cable or satellite, you could move your STB from set to set), it is not planning to offer interactive services for the foreseeable future. This should mean that, for several years at least, interactivity through digital television will take place in the main living room.

Consequences for interactivity and digital TV

Some commentators argue that, in order for interactive TV to be successful, it will always have to work in a 'lean-back' fashion. This viewpoint is summed up well by a report from Forrester Research entitled *Lazy Interactivity* (1998), which advised, *"To succeed on TV, an interactive application needs to work for viewers who have a remote in one hand and a beer in the other."*

Figure 4.19 TV is at the heart of the home % with screen media in different rooms



Base: All respondents
Source: The Henley Centre, Media Futures 1998

It is thought that consumers will not be able to cope with the complex two-dimensional graphic images prevalent on the Internet and that they will need multi-dimensional graphics in a simple, clear format that they can understand from their armchair. Consumers will be using a remote control handset rather than a complicated keyboard design and will simply want to point and click to interact with their television set. Admittedly, it would probably be difficult to surf the Web from your armchair unless you pull yourself right up to the screen and have access to a keyboard. One way to get around this problem would be to give consumers a tracker ball or mouse pointer on the remote control and perhaps enlarge the text size. Even so, consumers will have to start using their TV in a 'lean-forward' rather than 'lean-back' mode.

Many of the interactive services proposed, eg, home shopping and banking, are solo pursuits. If the digital TV set is positioned in the lounge, the interactive service user will have to find times to use the set when no one else is around. While this is relatively simple in theory (eg, ordering food in the day before the kids or husband come home, or paying your bills after everyone has gone to bed), it doesn't always work out that way in practice. If interactivity catches on, it could spell death for the traditional spot advert, with consumers checking their bank balances or ordering their pizza during the commercial break. And there could be a family fall-out if Dad wants to look at the accounts at 7.30pm on Tuesday night or Mum wants to do the weekly shop while there's an interactive discussion on The Big Breakfast.

Even with solo viewing, intelligent interactive applications will have to learn to recognise each user in the house if they are to become truly interactive and user-friendly. EPGs won't be well received if they are recommending *Eurotrash* to Great Aunt Winifred!

Picking up the interactive habit

What services does the consumer want?

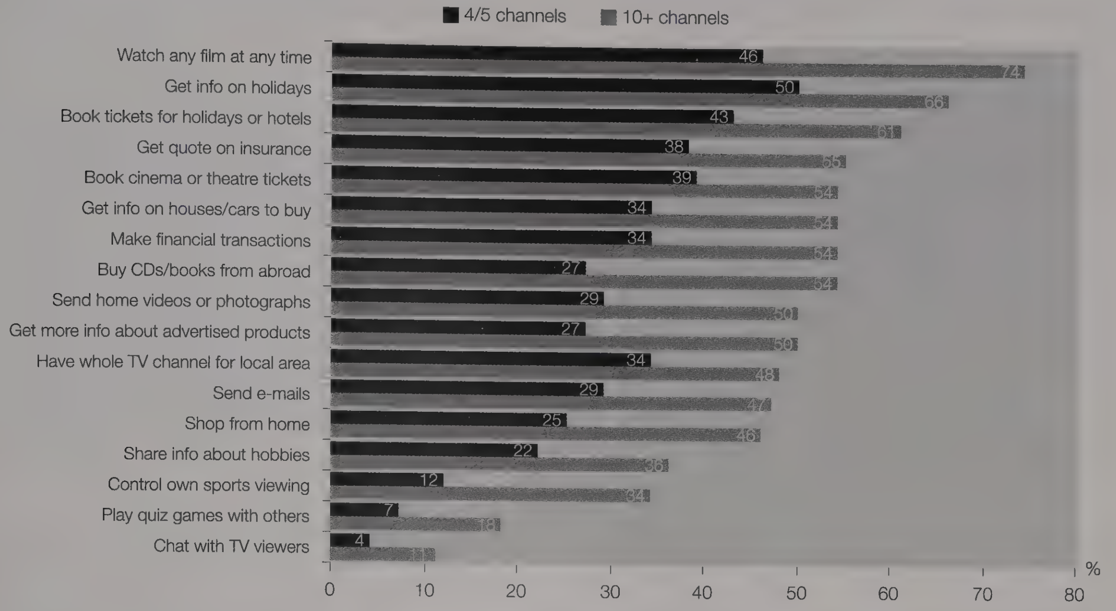
We asked consumers about a variety of different services they might receive through the TV or Internet. The options fell into categories such as transaction, information, communication and entertainment. Figure 4.20 indicates the percentage of consumers who were very or fairly interested in the services. Consumers were split between those who wanted more TV channels and those who were only interested in the status quo. It can be seen that those wanting more channels were much more interested in services overall than those who were not interested in multi-channel TV.

The most sought-after types of interactive services tended to be entertainment- and leisure-based, with video on demand being deemed useful by 75% of respondents who wanted more TV channels. Though it is an expensive and complex operation to supply customers with any film at any time (video on demand), the NVOD services planned by both digital cable and satellite should prove successful with consumers.

Information and transactions related to entertainment and holidays were the second and third most popular form of interactive service, with approximately two thirds of consumers expressing an interest. With consumers already using Teletext for these functions (Teletext accounts for 10% of the UK holiday market currently), digital TV should be able to lure customers to these types of services.

Just over half of respondents who wanted multi-channel TV were interested in getting information on important purchases such as a cars, houses or insurance quotes. This

Figure 4.20 Which interactive services are required % find stated services very/fairly useful through the Internet or TV



Source: The Henley Centre, Media Futures 1999

suggests that digital TV providers could capitalise on information provision from an early stage, even if transaction routes are not in place by this time. These figures indicate that consumers initially may use digital TV to supplement their traditional information and transaction routines. This point is being taken on board by the digital broadcasters themselves, for example in the provision of television listings. Though Sky has developed a sophisticated EPG, it will still be producing the Sky listings magazine as a supplement. The listings guide is obviously more familiar to viewers and also more portable. While not providing all listings, the magazine will work in harmony with the EPG, focusing on features and highlighting the most popular forthcoming programming.

This approach could be taken by companies wishing to use digital TV to sell goods and services. For example car buyers could be sent brochures through digital TV, or even just receive information, cutting down on initial visits to the garage. However, they may still visit the garage for the test-drive, final negotiations and purchase.

While there was less interest in home shopping services, 43% of multi-channel TV enthusiasts still represents a significant demand that is likely to grow as consumers become more aware of the benefits. (A parallel can perhaps be drawn with Sunday opening of supermarkets, which was initially opposed and deemed unnecessary by many consumers, but is now a well-established, relied-upon convenience.) Home banking was more warmly received, with over half (56%) of respondents who wanted more TV channels expressing interest in making financial transactions over the television or Internet.

Just under half of multi-channel TV respondents (49%) thought e-mail would be a useful idea, although interest levels dropped when other forms of communication were suggested, eg, sharing information about hobbies or chatting with other TV viewers interested in the same programmes. This would suggest that initial consumers would tend to restrict e-mail use to communication with friends and family. Just over a third (35%) of respondents wanting more TV channels were interested in controlling their own sports viewing.

These figures suggest that, at this stage, there is perhaps more popular appeal in 'interactive services on TV' rather than truly 'interactive TV'. Again, however, this could be due to low consumer understanding of the concepts involved.

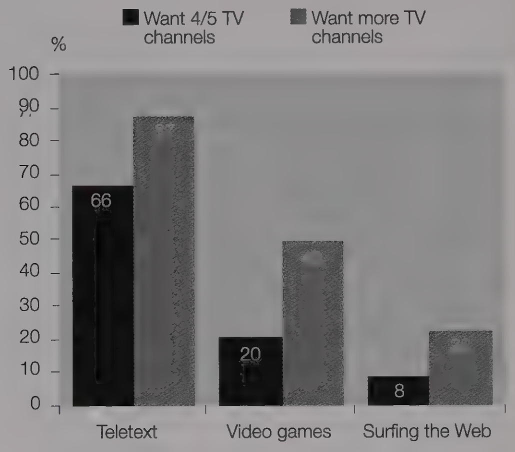
Willingness to pay

Generally speaking, less than half of the respondents who expressed an interest in interactive services were willing to pay for them. The two exceptions were video on demand and the sending of photographs or videos to friends and relatives via e-mail. This is no doubt due to the fact that consumers don't equate traditional routes of shopping or information-seeking with additional expense over and above the purchase price. It would seem clear that absorption rather than marginal costing methods would gain greater consumer acceptance for home shopping and banking. For example, Tesco could be better charging a few extra pence on each item delivered rather than a flat home shopping fee.

Confidence with technology

From figure 4.21, it can be seen that consumer confidence with basic interactive technology such as Teletext and video games is fairly high, especially amongst those who claim to want more television channels, with 87% being confident using Teletext and 49% playing video games.

Figure 4.21 Confidence levels with interactive technology % fairly/very confident



Base: status quo = respondents wanting current or no channels; More TV = respondents wanting 10+ channels
Source: The Henley Centre, Media Futures 1999

Respondents wanting multi-channel television are also more confident using the Web. Nearly three times as many of these respondents felt confident, compared with those not wanting more TV, indicating to digital TV providers that this group of consumers in particular should be willing to use the new services available.

Moments when I might

As well as competing with traditional ways of gathering information, digital TV will compete with an array of other interactive devices. When the Full Service Network (FSN) was launched in the USA, certain applications were not as successful as anticipated due to existing alternatives that worked perfectly well. For example, the ability to order fast food through the television set was not a big hit, as consumers found it easier to use the telephone. In addition:

- Mobile phones could be used to check balances and pay bills while the consumer is on the move

- The main shopper in the household may prefer to order food from a dedicated appliance (known as a 'toaster') in the kitchen that can even read barcodes of used products and store them in its memory as a reminder when the user next orders some goods electronically

In order to compete effectively, interactive services on TV will need to react to the consumer environment and have clear advantages over other services.

Brand trust

Traditional broadcasters enjoy high levels of trust from consumers. For example, the BBC is trusted a great deal or mostly by 76% of consumers, and ITV by 65%. This high level of trust could be transferable to home shopping and banking services over the TV, which would be an advantage for those consumers who are wary of carrying out transactions over the Internet. As noted above, BIB is hoping to capitalise on consumer concerns about the Internet by promoting the security of a closed system. However, not all media companies have high levels of trust to trade upon. If BIB is hoping to trade upon the trust of Sky, it should bear in mind that only 30% of current satellite customers believe Sky to be honest and fair (see figure 4.22). In fact, Sky subscribers have far higher levels of trust for the terrestrial broadcasters.

Figure 4.22 Brand trust of *satellite viewers* for selected media companies How much do you trust the following media brands to be honest and fair?

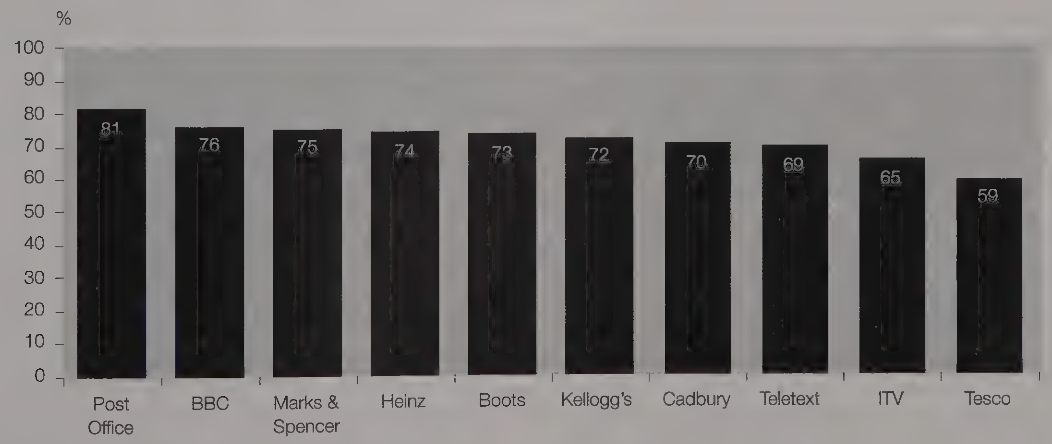
	BSkyB	**BBC**	**ITV**	**Cable & Wireless***
A great deal/mostly	30%	72%	66%	48%
Up to a point	29%	19%	25%	23%
Not really/not at all	14%	3%	3%	7%
Don't know/not stated	27%	6%	6%	21%

Base: All satellite subscribers * Base: All cable subscribers
Source: The Henley Centre, Media Futures 1999

Cable operators that are planning open-access interactivity systems, while not being able to play the security card, could actually benefit from higher levels of brand trust. Cable & Wireless is trusted to be honest and fair by 48% of cable customers, a higher rating than satellite viewers' ratings of Sky.

Media brands are not alone in having these high levels of trust, however. From figure 4.23,

Figure 4.23 Key retailers could cash in on brand trust Brands believed to be honest and fair a great deal/mostly



Base: All respondents
Source: The Henley Centre, Media Futures 1999

it can be seen that retailers such as Marks & Spencer, Boots and Tesco all score relatively highly. Tesco, for example, has already become an Internet service provider and could be perceived as more trustworthy than BIB, even if it uses an open system.

The long road to interactive

Though digital television has already launched, interactive services will not take off at the same rate, due to a number of supply- and consumer-led factors, namely:

- technological barriers
- up-front investment for interactive providers
- fulfilment – the radical alteration of your business
- one chance from the cynical consumer

Technological barriers

Before complex interactive services are launched, the digital providers have to ensure that the consumer can respond, that they have a modem and return loop capacity. The digital terrestrial boxes will not have interactive capacity initially, and digital satellite will not have fast modems in all its STBs (consumers will have to buy more expensive boxes to be able to carry out complex interactive services). Some commentators claim that if interactive TV did take off incredibly quickly, the phone networks would not be able to cope with the surge in demand and that it is therefore in everyone's interest for take-up to be gradual.

Both digital satellite and terrestrial will require consumers to have a return loop using existing phone lines. This will either mean the addition of a second line, or piggy backing on the existing phone line. Obviously, both entail some additional expenditure and potential inconvenience. If consumers use their existing phone line, the socket must be close enough to the TV (only 58% of our respondents claimed to have a telephone in their lounge). Unless sophisticated switching devices are fitted, consumers could risk having their normal phone calls interrupted when the TV is plugged into the phone line. Although cable has the upper hand in being able to use existing connections for the return loop, it too may need to upgrade some houses' installations as the wiring may not be sufficient for high bandwidth interactive services.

Although these factors can all be overcome, interactivity will not arrive overnight. It will require considerable effort to provide or to receive these services, and without tangible evidence of their advantages, interactivity could be quite slow to achieve mass-market currency.

Up-front investment by product and service providers

Owing to the conflicting technology being deployed by digital service providers, companies wishing to make use of digital TV are faced with the prospect of considerable investment in differing systems if they are to reach significant numbers of customers.

BIB's proprietary 'Open TV' software requires companies to develop their front ends in conjunction with BIB. Although this allows BIB a high degree of control over the interactive services deployed (thus allowing it to take a large cut in revenue), it does necessitate companies taking a leap of faith to invest in the new technology (and to pay a heavy premium to use the BIB system), which to date they have been unwilling to do. At the time of writing, no companies have actually signed up to BIB, although some have been involved in discussions.

The cable companies are basing their interactive software on Java, a genuinely open system (unlike Open TV) in which Sun will supply the source code freely to any interested party. The advantage for companies using Java is that it is an Internet-based standard, so companies could use sites developed for the Internet on cable television.

Sky seems to be distancing itself from the whole debate by claiming that PCs and TVs will not converge in any fashion and that TV will always be entertainment-based. However, this does seem at odds with BIB's strategy to offer home banking and shopping through digital TV. In the long run, BIB's success could depend largely on how many subscriptions Sky Digital obtains.

Fulfilment – radical alteration of your business

In order to offer interactive services, many companies will have to radically alter the way they do business. Some will have to deal with the consumer directly for the first time, while most will be unaccustomed to delivering goods and services direct to consumers' houses. It is not just a case of companies setting up a Web site and benefiting from a new revenue stream.

One of the largest hurdles faced by companies will be fulfilling orders placed over an interactive system. For example, Sainsbury's 'Orderline' service, which takes home orders over the Internet, became oversubscribed soon after its introduction, resulting in a five-month waiting list in some areas and disappointed, disgruntled customers. Any large-scale operation would probably necessitate automated packing centres, rather than the gathering of goods from existing supermarkets. While home catalogue shopping companies or music clubs are used to fulfilling orders remotely, many other companies tend to be self-service. For example, records and books might lend themselves to remote delivery through post or courier systems, but a company such as HMV or Virgin would have to alter its business structure in order to operate in this fashion. Virgin, ironically, would be returning to its roots as a mail-order service for records.

Companies dealing with information provision or entertainment would also have to make sure that their business structures could cope with on-line ordering and delivery if they are not to damage their reputation.

The cynical consumer

Interactive services will have to 'get it right' with consumers from launch onwards if they are to be adopted with any speed and confidence. Given that consumers could be slow to migrate to new ways of ordering goods, services and information, it is imperative that companies ensure that their delivery is highly efficient in order to encourage repeat business. Failure to meet delivery times or dispatch the correct order could send consumers scuttling back to more traditional forms of delivery.

The Full Service Network, an interactive service developed by Time Warner in the USA, found that consumers were less interested in unfamiliar services such as home shopping and banking. Video on demand proved more popular as people equated it with the television environment, but the killer application from the Florida trial turned out to be the ordering of stamps over the TV, which were then delivered by the postman the following day.

Supply-side consequences

How should you provide interactive services over the TV?

The evidence available to us from our *Media Futures* survey and from past trials suggests that any form of interactivity over the TV should try to exploit the traditional advantages of this medium. Digital broadcasters, as well as product and service companies, will need to make sure that their interactive services:

- are sympathetic to television heritage
- remember the social nature of television
- are easy to use
- have clear consumer benefits
- are harmonious with existing forms of delivery

Television heritage – push not pull

Television has primarily been used by consumers as an entertainment medium – fast-moving and with plenty of sound. Interactive services that incorporate televisual images into their content will gain greater acceptability amongst customers.

For example, news services could try to include clips of relevant articles being read by news casters, or shopping channels could include close-up pictures of merchandise as would be seen in the traditional shopping environment.

Consumers may also respond well if TV's serial format is adopted to some degree. For example, interactive sites could present products and services in succession, rather than consumers having to always click through to different screens (ie, there would be a 'push' effect rather than a 'pull' effect). Obviously, opportunities for the viewer to break out of the loop could be available for those who actively want to seek out information. This would allow consumers to receive information in a 'lean-back' or 'lean-forward' manner. An interactive service combined with a dedicated channel could thus prove a very popular introduction to the more active use of TV.

For example, the Thomas Cook Travel Channel could provide the sort of entertainment associated with standard television. Once something had caught the consumer's interest in a 'lean-back' fashion, he could be supplied with more information or even carry out transactions in the two-dimensional format. If television interactive services simply use Internet-style 'pull' sites, they may find that fewer consumers bother to interact. This strategy has been used by Web TV which, in co-operation with *Baywatch*, produced an episode where viewers with a Web TV box could click on icons during the programme to display relevant information, eg, biographies of the stars or updates on the current storyline.

Broadcasters could develop niche channels for consumers by blending traditional TV formats with additional text and graphics and interactive services. This could be significantly cheaper than traditional programming and could provide the enthusiast with information and communication for which they would be willing to pay a premium.

TV window dressing

Digital television will assume a position at the centre of the home (in terms of importance rather than location) and its use will reflect the comings and goings of the day. Just as television schedules are affected by time of day and week, interactive services on television could adapt to their environment in order to push consumers into action.

For example, the home screen of a catalogue company shopping service may feature women's clothes and household goods during business hours, and teenage fashions during kids' TV hours. The service could prioritise goods in which all the family are interested during early peak-time and then feature adult products and services later in the evening.

Interactive services that could be used by several people at a time could also gain greater acceptance. An interactive grocery shopping programme, such as a personalised Supermarket Sweep with Dale Winton, could let the whole family participate in the weekly shop. Other interactive services such as changing camera angles or gambling could also be more suited to the social nature of television. Granada and Littlewoods appearing to be taking this approach with their joint-venture shopping channel branded Shop! The new channel, which will launch on ONdigital initially, will broadcast 60 minute programmes around topics such as high street fashion, DIY and gardening. The backers claim the channel will blend quality, lifestyle programming with mass-market popular brands to offer a unique shopping experience. Though orders will initially be placed over the phone, interactive ordering is planned once the digital systems are in place.

Shop!
The Home Shopping Channel

By taking their cues from their environment in this way, the interactive services could gain more acceptability in the home. Although services should also be designed for individual use, with users starting to interact on a one-to-one 'lean forward' basis, consumers will appreciate an easy transition to this more complex type of interactivity.

Easy to use

Although TV viewers may display high levels of confidence with technologies such as Teletext and video games, interactive services must still prioritise ease of use. As explained above, viewers will be using remote controls rather than keyboards and will be sitting a fair distance from the television set.

Being able to point and click at options with little need for complex input will allow users to interact from the comfort of their armchair. Complex alpha-numeric inputs will be difficult to use with digital television unless a keyboard is attached. This would require a set-up like a PC and is less likely to become a fixture in people's lounges.

For this reason facilities such as e-mail will prove difficult to operate by digital TV, and will be more suited to PC-based interactive systems.

Clear consumer benefits

The consumer will have to perceive clear benefits from using interactive services over the television. Interactive services that are highly text-based, such as financial interactions, may be more appropriate for keyboard environments or screen phones. The television's visual capacity would not be such a benefit for these applications.

In order to achieve a perception of value, consumers will require a full range of services. For example, although some consumers may change to a bank that is the only one to offer a digital TV service, inertia will cause many consumers to stay put. If digital TV offers less choice than other interactive services (for example the closed BIB system is unlikely to have as much choice as an open Internet standard), broadcasters and associated retailers will have to invest heavily in superior front ends to compensate for the lack of choice. It could be argued that this very exclusivity will justify the extra investment in the service as companies could be guaranteed a single audience.

Harmonious with existing forms of interactivity

By interactive services making themselves harmonious with traditional consumer routes for information gathering or carrying out transactions, eg, using the phone, postal catalogues or high street shopping, interactive services will give consumers extra value. For example, digital TV households could benefit if their Littlewoods home catalogue cross-referenced with the Littlewoods interactive service through the TV. Consumers could use the catalogue for their initial window shop and then use digital TV to find extra information on the products they want, to find out whether they are currently in stock and how long they would take to order, or conversely to window shop on TV then order using the catalogue and phone.

Sky has taken this approach with its EPG. The Sky listings magazine will be produced in tandem with the guide and could initially help users familiarise themselves with the new product.

Revenue streams

Proprietary systems, eg, BIB, may not be able to charge high premiums initially as the companies will have to invest significantly to use the service. Conversely, though open systems can lure companies by getting them to use existing Internet content, the fact that they operate on an open interactive system could mean that consumers could then gain access to the Internet and bypass specially collaborating retailers. These open systems will have to employ heavy signpostings and other forms of advertising to ensure that customers use retailers that have built unique sites for the service, rather than use competitor sites on the Internet.

Summary

Despite significant consumer demand for interactive services, this is only likely to be translated successfully into ‘interactivity on TV’, where applications are enhanced by the superior visual and entertainment capabilities of TV. As an interface, the TV has the potential to bring interactive services to the masses in a more engaging, user-friendly manner. However, for more complex applications, the PC or ‘toaster’ is likely to remain the primary interface, as people will not be keen on using their TV set in this unfamiliar, unwieldy way.

As far as ‘interactive TV’ goes, the same ideal applies: if a programme’s entertainment value is increased through interactivity, then viewers will welcome it. But they are not in favour of interactivity for interactivity’s sake if this will *interfere* with their enjoyment of a programme by demanding too much of them. It seems that, for the moment, TV *programming* is still best appreciated in its more passive, ‘lean-back’ mode.

4.4 Advertising

Introduction

This chapter will explore the likely impact of digital TV on television advertising. The following areas will be discussed:

- Implications for the general structures of advertising; potential threats to the role currently played by advertising and ad agencies.

- Opportunities created by digital TV in the area of advertising, ie, interactivity and advertiser-funded programming.

- The reactions and predictions of opinion leaders from the advertising world regarding these threats and opportunities.

- How advertisers and agencies can adapt to the digital world and maximise the opportunities available.

As this chapter is concerned less directly with the attitudes and behaviour of consumers than with the perspectives of those involved in advertising, we have interviewed a panel of advertising clients and agency personnel, all of whom have a major interest in the evolution of digital TV advertising. We have provided a forum for their ideas, interspersed with Henley views, research and forecasts.

Our interviewees included the following:

Jayne Darbyshire – Television Advertising Manager, NatWest

Doreen Dignan – Media Research Director, MindShare

Frank Harrison – Director of Strategic Resources, Zenith Media Worldwide

Paul Longhurst – Director, Quantum

Glen Parker – Media Research Manager, Saatchi & Saatchi

Paul Parashar – Broadcast Director, New PHD

Will Saunders – Group Director, Motive

Nigel Sheldon – Director, MindShare Digital

Jon Wilkins – Head of Creative Media, New PHD

Nik Wilkinson – Media Manager, Birds Eye Walls

Crumbling paradigms

The spot is dead. Or at least, its death sentence is assured now that digital TV is on the brink of ascendancy: so say the most radical advocates of digital change.

But, as with all such digital prophecies, we should be cautious about forecasting the imminent collapse of life-as-we-know-it. Traditional advertising will not change beyond all recognition, certainly not for the next few years. However, it is likely that the structures that currently define the relationships between advertisers, agencies, media and consumers will soon be subtly altered by new pressures and new opportunities, particularly those stemming from digital TV.

Historically, agencies have acted as brokers between advertisers and the media, with the media then serving as the vehicle for broadcasting messages to consumers. The vital role played by the media in reaching large segments of the population on behalf of advertisers has given media-owners prime negotiating power. Although ITV audiences have declined in recent years, this has not been reflected in reduced advertising rates. Instead, it has actually served to *inflate* the cost of advertising, since more time must be bought to reach the same number of people. The media also have the power to wield (unintended) influence over the commercial *message*, since advertising appears within an editorial context or environment over which advertisers have little or no control.

In response to these pressures, advertisers have increasingly directed their budgets away from above-the-line advertising towards direct marketing. The new emphasis is on relationship marketing – a relationship based on two-way dialogue rather than one-way broadcast. As a new medium, the Internet provides an excellent tool for this kind of direct communication, allowing customers to research a company or its products by going straight to the relevant Web-site. Taken to its most extreme conclusions, this scenario suggests that, as penetration of the Internet grows, the role of the media and, indeed, of the traditional advertising agency that creates and places TV advertising, could become marginalised.

There is another way in which new media may place adverse pressure on TV advertising and its traditional structures. For this phenomenon, the much-vaunted 'audience fragmentation' can be held responsible. As discussed earlier in this chapter, the increased bandwidth entailed in digital TV allows for many more channels, making it likely that each will account for a smaller share of the total audience. For advertisers wishing to retain quick, easy and cost-effective access to large, diverse masses of the population, this poses a problem.

Whereas a few well-placed slots on ITV would, in the past, have wrapped up the task very nicely, the relative decline of such broad-based media will call for a revised approach. Even nowadays, companies such as Nike have to buy far more TV time than the six prime-programming slots that would previously have generated significant impact and even caused an advertisement to become a conversation-piece. Moreover, the growth of PPV and off-set TV schedules will exacerbate the trend towards fragmentation. It is this process that leads the doom-mongers to forecast the speedy demise of the traditional 30- or 60-second brand advertising spot. Some commentators have even called into question the future of advertising and the importance of its role:

Glen Parker: *"Ad revenue may not be of much importance in a world where PPV and subscription revenues become key."*

Paul Longhurst: *"It just might be that viewers start using the technology to work out ways of not watching commercials. In an environment with all this choice, why would you watch commercials?"*

Nik Wilkinson: *"It is hard to imagine the demise of advertising with the advent of more subscription or pay-per-view. However, attention levels are declining – increasingly, TV is consumed more like radio."*

Before we examine the substance and timescales of such predictions, it is worth exploring the case made by some possible 'revised approaches' as these will also influence our forecasts for the future of advertising. As Paul Longhurst suggests, *"You can either move forward on the basis that you must fantastically increase the amount of exposure you* *deliver to the consumer, or you can find cleverer ways of interacting with that consumer."* The two alternative approaches we will discuss are interactive advertising and sponsorship/ advertiser funded programming. Both constitute new opportunities brought about by, or made more appealing by, the launch of digital TV.

Interactive possibilities

Paul Longhurst: *"I think that when you have an opportunity to put a message into someone's front room, and the technology in place for them to respond to that particular message there and then on a one-to-one relationship, then I think that is a fundamental change."*

Paul Parashar: *"If you wanted a barometer on interactivity as a general concept, the market seems to suggest that there's a demand for it now. All the on-line booksellers are trading at high-stock prices. 2-Way TV, which previously could be considered on the periphery of broadcast, is now with a major player like CWC. I think people are starting to look at the area as something that three or four years away will distinguish their product."*

Paul Longhurst: *"The point is that there is a lot more empowerment for the advertiser, for the broadcaster and for the consumer, and that has to be a good thing. As long as everyone understands his or her respective power in this new relationship, then everybody can potentially benefit."*

The whys and wherefores of interactive TV have already been extensively addressed in section 4.3 within this chapter. But in addition to commercial transactional applications, ie, home shopping, there is also scope for interactive applications that begin from the advertising end of the commercial spectrum (although they may blur into transaction further along the line). Direct response advertising has already made great inroads in the past few years. The number of ads carrying a telephone number has doubled from 12% to 25% between 1993 and 1998, whilst response rates have increased more than tenfold (BT/Channel 4 1998 DRTV Research). Interestingly, the same survey reveals that, of all direct response ads, 17% now carry a Web address as well as a phone number. This is testament to the growth of the Internet, a development that holds the potential to upgrade direct response advertising into interactive advertising, and thereby to transform the information-seeking process. In addition, it can counteract the media marginalisation that the Internet may threaten.

Interactive drivers? – the case for car advertising

The car is a classic and oft-quoted example of a product ripe for interactive advertising. The process of buying a car is one of high engagement – much time and attention is taken in choosing a make and model, tracking down local dealers, finding the actual car for sale that meets your criteria for the right price, and even in arranging test drives. All this information could feasibly be gathered at the touch of a button, with interested customers being able to 'click-through' to it via a screen icon following a standard scheduled brand advertisement. Not only does this increase the convenience to the consumer, but it also allows and encourages immediate follow-up to a promotion, which is obviously of benefit to the advertiser too:

Frank Harrison: *"Interactive advertisements can shift people from seeing things passively into creating some sort of action. That's the biggest creative challenge for advertising generally."*

Jon Wilkins: *"We could run a commercial for Volvo and people at the end might say, 'Well* *actually, I am quite interested in test driving a Volvo and I'd like to know more about the product.' The way advertising stands at the moment, people just say, 'I'll try and remember to do that at the weekend'. But interactive will allow them to know quite a bit more very soon. From what was traditionally just a broadcast message, you might reach 10 million people. But of these 10 million, you might get a thousand who want to arrange a test drive. Now, if I were the marketing director of a car manufacturer, I'd think that was great, because it would make my advertising more accountable."*

The car is a 'high ticket' item, meaning that customers are unlikely to complete the purchase over the TV. Therefore this remains a pure advertising concept rather than a transactional one. However, this form of advertising offers far superior opportunities to both advertiser and customer. According to the new mantra of relationship marketing, and through the mechanisms of direct response, advertisers can not only evaluate the effectiveness of their ads, but can also build a comprehensive database of customer profiles and individual needs so that these can be more successfully targeted in future:

Paul Parashar: *"There is no reason why you couldn't target loyal customers separately. Let's say you've got the S40 Volvo launching on 1 September. On 28 August, 200,000 of your most loyal customers get a specific ad played into them – a sneak preview – whilst everybody else gets a generic ad on Volvo."*

Jon Wilkins: *"It relates to the concept of addressable advertising, which they take very seriously in America. A new subscriber to satellite or cable could fill in a base level questionnaire saying what their basic interests are and what they're in the market for. There certainly are ways of filtering certain messages to certain households which will make sure people are positively inclined to them. It's made possible by the bandwidth capability of digital and someone somewhere controlling which messages people receive and their varying creative treatments."*

"Would you want a relationship with a pork pie?"

So much for high-engagement/high-ticket product advertising. But what about low-engagement/low-ticket items? Can interactive advertising be of any possible benefit to them? As Nik Wilkinson, Media Manager of Birds Eye Walls queries, *"Would you want a relationship with a pork pie?"* In other words, people may not want this much information on a personal level from some branded products. *The Loyalty Paradox*, a report commissioned from The Henley Centre by Brann in 1995, suggested that, *"One of the most startling findings from the qualitative phase of the research was that most people simply do not conceive that they have relationships with companies at all."* The only exceptions where the term 'relationship' did have some credibility were banks, building societies and small local businesses, especially where an individual contact within the company was known and liked.

In the three years since this report was written, it can be assumed that more consumers are au fait with the idea of relationship marketing. However, *The Loyalty Paradox* does still have considerable relevance, and in particular, we should take heed of the finding that, *"There appeared to be some degree of fear and suspicion about company motives for attempting to conduct a relationship. Equally, there was irritation that companies might assume that a relationship exists simply because a consumer has purchased a particular item or service."* It follows that consumers may not appreciate being constantly bombarded by information and intrusive advertising about low-interest items. This will be an even greater danger in the viewing environment created by interactivity and programming-on-demand, since viewers can make more active efforts to avoid advertising messages that they are not particularly interested in.

The answer is that these sort of product categories can capitalise on the interactive opportunities too, but in a different way. Instead of exploiting *informational* capabilities, advertisers could make use of the enhanced *entertainment* that interactivity can bring, or they could produce discount-led ads that target their audience with coupons, for example. A good case-study of the former is the Kellogg's Frosties trial on Videotron in 1995/96. Discount-led ads would be a better option for FMCG brands or price-sensitive products with less 'personality' or brand value. Paul Parashar points out, *"Do people want to interact with FMCG brands? Well, they do if they can collect five tokens from five coffee jars, send them off and get a free offer."* By incorporating a small printer into the STB or digital TV package, coupons could even be printed out during or immediately after the ad. Through careful targeting of such offers, discount-led ads also hold the opportunity to build relationships with customers in a similar manner to current loyalty schemes.

Suitability for such treatment will be influenced by the product, its positioning and its customer base – by and large, the most effective targets would be youth markets. In fact, Glen Parker warns, *"For certain target audiences, particularly young children and youth markets, if your competitors' ads are interactive, your own creative may not seem as compelling or involving."* On the other hand, individual advertisers may judge that their core market is inappropriate for interactive campaigns. For example, cars and financial services would seem suitable products on account of their information-heavy, high-engagement status. However, specific brands such as Rover and NatWest may have older, less technologically capable customers who would rather not 'go interactive'.

Where does it all fit in?

Before this level of interactivity (particularly of the information variety) can become a strong force on the advertising scene, there is an important issue to be resolved – how to fit interactive ads into a scheduled programming environment. Clearly, it will not be in the interests of the programme-maker or of other advertisers if the first ad in a break causes 20% of the audience to lose itself in car brochures for the next 15 minutes.

Various solutions have been suggested: put interactive advertising only on smaller channels rather than the main networks; make the first spot more valuable; pay for spots on the basis of ratings actually delivered (ie, pay per click-through); restrict interactivity to the last ad in a three and a half minute break; or click on an icon to 'save' the ad and come back to it later. Alternatively, it could be suggested that it makes no sense to speak of interactive adverts in the context of the traditional 'commercial break'. Although the television would be the interface for interactive advertising, this would be a qualitatively different TV experience that cannot be compared with programme viewing. Consumers would relate to the interactive experience as they would to the computer, Teletext or even the telephone, so such advertising could exist *independently* of the scheduled programme environment.

However, this scenario entails a significant loss of promotional power. The broadcast advantages of traditional TV, with its potential to attract and drive an interested proportion of people through into a narrowcast Web-site environment, are relinquished in moving to this kind of directory-style advertising. Consumers would have to seek out information in a far more active manner, resulting in smaller audiences even for high-ticket, high-engagement items. However, BT's Adland channel, trialled in Colchester and Ipswich in 1996 and researched by The Henley Centre, showed that a dedicated 'advertising channel' could be a feasible option if it were not sold as such. Users had a more positive opinion of this service where it was perceived as a brand/company information or features system, or even as a buyers' guide to (new) products and services. As well as those seeking specific information, Adland was also enjoyed by those curious about its contents, and by 'leisurely browsers'. In order to stimulate this kind of use, it was concluded that the service must capitalise on its virtues of entertainment and interactivity, perhaps by including promotions, competitions and infomercial style ads. In sum, 66% of respondents found this sort of service appealing, and its status as a free channel may boost this figure in the Pay TV future.

However, it is evident that this area of advertising is especially difficult to predict. The proposed move to 'active TV' involves a cultural change that will take time, and will have to be somehow reconciled with our ongoing mode of passive viewing. (Interestingly, 68% of Adland survey respondents watched the service whilst alone, reinforcing the point made in section 4.3 that interactive services are not ideally suited to family viewing):

Paul Longhurst: *"The bottom line in all this is that I don't think anybody really knows. The biggest mistake would be to assume that what we understand now about consumers' favoured times for either interaction or concentrated viewing, will hold in the future. Until you give the consumer the opportunity to experiment, to get involved, to begin to find out how they will get this to work for them, it is pretty difficult to second-guess their behaviour."*

This suggests that, in spite of the optimistic overviews laid out at the beginning of this section, interactive advertising is a long-term venture. It will evolve slowly along with other new digital possibilities. In the meantime, there is a need for advertisers to remove the 'second-guess' element as far as possible. They should commit to the type of research (such as BT Adland), which gets under the skin of TV viewers, tracking their responses to early interactive applications and remaining sensitive to their changing needs and perceptions of the TV as an interactive medium.

The march on media

The second opportunity for digital TV advertising also grows out of a supposed threat – that of audience fragmentation. Fragmentation may be perceived as damaging to the interests of advertisers, but its flip side is *segmentation.* The multitude of digital channels and programmes on offer will cater for small but well-defined communities of interest, and these sort of niche audiences will attract sponsorship as an increasingly popular advertising model. There are good examples of successful sponsorship on commercial analogue TV channels at present. However, in future, sponsorship will blur into programme-funding or even programme-making for a number of reasons:

First, it is likely that there will be a relaxation of the tight rules that currently restrict initiatives in this area. At present, UK regulation is particularly severe. Sponsors of a programme cannot promote themselves *within* the actual programme, although they can use 'break bumpers' for this purpose. On occasions, this has caused difficult demarcation issues. NatWest, for example, wanted to use the cricketer Darren Gough in an ident for a cricket programme it was sponsoring. It fell foul of the regulators because Gough also featured in the programme itself, so the idents were deemed to have become too closely associated with the sponsored programme. Rulings such as this can discourage advertisers from becoming involved in sponsorship deals. As Will Saunders from Motive (NatWest's media agency) queries, *"Which rules should count – advertising rules or programme rules? With this ambiguity, you end up with both sets of regulators coming down on you."* The case for deregulation has already been partly acknowledged in the ITC's revision of cross-media ownership rules in 1997. This has at least paved the way for greater use of masthead programming by magazine brands. A more lenient ruling on advertiser-funded programmes seems set to follow, with digital TV creating an even greater impetus.

The reason for this is that digital's capacity for more channels will create a huge increase in airtime that must be filled, and therefore a greater demand for programming. But as audiences fragment around this greater choice, funding of TV programmes and channels will become a serious problem. Budget-squeezed broadcasters, especially the new channel providers, will therefore be on the look-out for cheap sources of content. As we saw earlier in section 4.3, even 'media owners' such as BSkyB and BIB are already separating out the traditionally combined role of platform provider and content provider, allowing other interests such as retailers, brand-owners or even sports teams to become the new content providers. Advertiser-funded programming therefore clearly provides benefits for broadcasters.

Secondly, broadcasters also benefit from keeping their audiences happy, and this is made more likely by offering them well-funded, high-quality, original, home-grown programmes rather than an endless diet of cheap imports or repeats. So the viewer benefits from advertiser-funded programming too, creating an additional driver for its success.

But what's in it for the advertisers? What are the various options available to them and what are the advantages attached to each?

Own-label media – a new range of products

First, there is the standard sponsorship package, negotiated after a programme has been made. The most effective way of exploiting this opportunity is to ensure a good 'fit' between the programme and the brand. Sponsored closing credits may, in future, be able to incorporate direct response elements, so that there is the clearest possible link to the sponsor.

The second option is for companies to become involved at an earlier stage of the process, by funding or co-funding a programme. This gives a greater influence over the type of programmes made and over individual productions too. It can also be seen as an investment opportunity. As well as receiving on-air credits, these type of funding arrangements can reap rich rewards if the programmes are distributed internationally in exchange for cash or bartered airtime. Big-budget advertisers such as Proctor & Gamble and Unilever have shown themselves to be especially keen to develop projects of this nature. P&G, for example, has its own TV production division and has invested in high-profile programmes such as Northern Exposure. Through investing in high-quality, crowd-pulling productions, companies can also create advertising opportunities for themselves and others by stimulating audience figures for the commercial breaks within and around the programme.

A more defined marketing strategy is to commission programming that will directly appeal to the advertiser's target consumers. Channel 5's *Pepsi Chart Show* is a good example of this, as is bookseller Waterstone's funding of a one-off Channel 4 programme called *Books of the Century*. At present, regulations state that a sponsor's name can only be used in a programme title if this is a televisation of what is primarily a sponsored event organised by an independent third party (the Schweppes EuroBaschhh song contest, broadcast on Channel 4 in May 1998, falls clearly into this category). It is also stipulated that there can be no overt use or promotion of branding in television editorial.

These regulations stand in the way of a possible future third option – the production of brand-specific lifestyle programming. In fact, the likelihood here is that advertisers may fund whole channels of this type. This could be a relatively affordable exercise – it has been suggested that such channels could be franchised for around £100,000. Retailers could be especially well-placed to take advantage of this new initiative. Sainsbury's, for example, has already indicated its interest in digital TV opportunities by talking to BIB about developing an interactive home shopping offer. However, with its well-established customer magazine, storecard and loyalty scheme, it has the sort of customer information and editorial experience that would be extremely useful for launching a lifestyle-based TV channel. At a later stage, this could incorporate interactive elements or even full-blown home shopping. Possibly, some of BIB's early associates will strike out on their own once they have accumulated enough interactive expertise from this venture.

Paul Parashar: *"There is no reason why a company with capital of many billions, such as Pepsi Cola, shouldn't be a broadcast channel at some point in the future. And you know what you're going to get from Pepsi – presumably a product that's youth- and fashion-related. I think there is a realisation that owning your own media is no bad thing. Sainsbury's Magazine is read by four million people a month. As the production costs of TV come down via digital, people are becoming aware they can cost-effectively become a heavy-duty media player."*

The programme funding/producing options described in this section could, in time, be the new 'brand advertising' in place of conventional commercials. They allow for a unified message to be transmitted to a large number of relevant consumers – a message that promotes a clear set of values attached to the brand. But this is an advanced form of brand advertising. It focuses far more closely on consumers (who, after all, are drawn to the TV by an intention to watch programmes rather than ads), and this means it is a less intrusive, perhaps more appealing method of promotion. This could be a welcome solution to the apparently increasing phenomenon of advertising avoidance. If viewers feel they are deriving some sort of benefit from advertiser-funded programming, such as high-quality production, appealing content, loyalty rewards or service improvements, then they are more likely to look favourably upon the company concerned.

Even for basic sponsorship packages, innovation and an emphasis on consumer benefit can generate huge goodwill towards a company. For example, advertisers may choose to 'sponsor' a PPV programme on behalf of the viewer, subsidising a football match or even a film so that it can be offered free to valued customers or potentially lucrative targets:

Jon Wilkins: *"Pay-per-view will be crucial. Can you imagine what would happen if England football games became PPV only, and some company said they would pay for every household in Britain to watch England v Argentina, which normally costs £10? And it could make perfect sense in the future for, say, Pepsi, instead of advertising, to actively seek pro-Pepsi Generation people and give them VIP music events via the TV screen. That would be a brilliant way of building brand affinity. And brands will start owning the rights to these kind of events and will license them to the network. I think this whole area of advertiser-funded programming is going to be big over the next few years, because it's in everybody's interests. It's in the viewers' interest ultimately but it's also in the broadcaster's interest because they need good quality of programming, and the advertisers want to carry on building affinity. This could be a really important way of people building relationships with products further on down the line."*

Paul Longhurst: *"If you wanted to crash out on the sofa and watch Lost In Space, this might normally cost £2.99 on PPV. Yet, if you first watch two and a half minutes of Coca-Cola advertising, for example, and then click XYZ, they would give you free viewing. There is a relationship here between viewer/consumer and broadcaster/advertiser which is in the general interests of all people in that model."*

However, as with interactive advertising, there are issues to be resolved before ad-funded programming becomes the new utopia. First, there is a need to maintain standards for this kind of programming if viewers are not to be disappointed by and consequently turned against the advertiser. Although the initial *franchise* costs may be relatively low, the actual costs of *producing* a niche TV channel thereafter, may weed out a lot of potential applicants:

Doreen Dignan: *"People expect a certain quality from TV. If you are watching the BBC and switch to a niche ski channel, the difference in production standards will be immediately obvious and likely to be off-putting."*

Such a comparison would obviously do the niche channel producer no favours and could even damage their image. Secondly, even for the biggest-budget advertisers, venturing into programme production is a whole new ball game. A series of programmes about style and design funded by Elida Faberge is remembered by Unilever insiders as being *"very hard to make and get distributed"*.

A third issue is one that will doubtless be subject to much debate before sponsorship regulations are relaxed. At the moment, sponsorship credits and promotions are deliberately distanced from editorial content so that the viewer does not become confused by the relationship. Proponents of change argue that people well understand the difference between sponsorship and ownership of a programme, so there is room for more active advertising techniques on the part of the sponsor. But if funding and production of programmes by advertisers becomes commonplace, the distinction between sponsorship and ownership will blur. In this situation, will viewers perceive a crucial loss of 'editorial integrity'? National newspapers have already been devalued by the meddling of their owners in editorial matters, such as the prioritising of the news agenda or the bias in a story. Rupert Murdoch's latest antics tend to be reported more indulgently in The Times and The Sun, for example. (This is not a new phenomenon, it must be noted. The national press has at times been little more than a propaganda tool in the hands of the old press barons such as Max Aitken – Lord Beaverbrook – and many before him.)

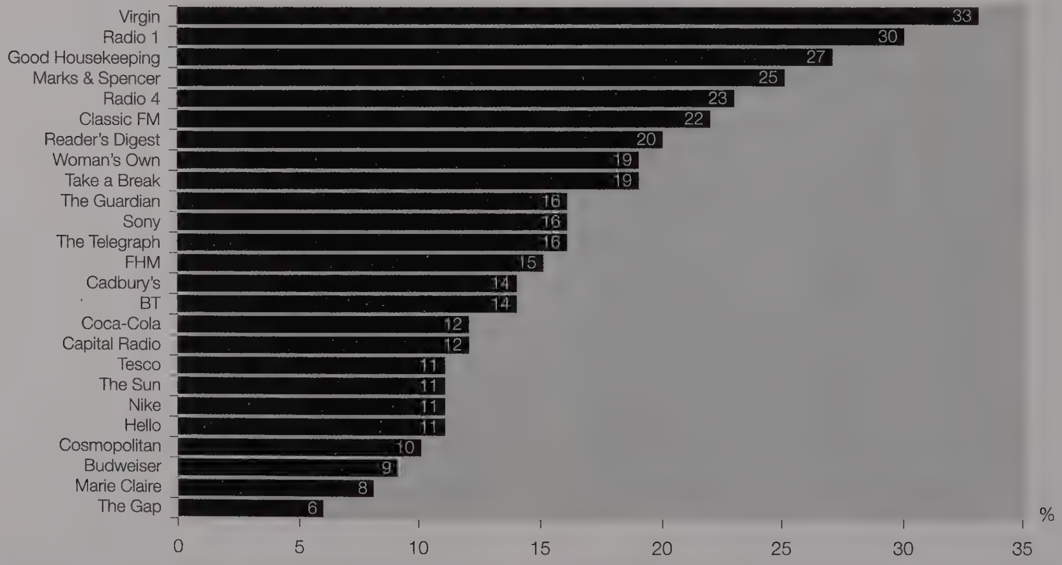
Another of The Henley Centre's reports, the annual *Planning For Consumer Change* survey, reinforces the idea that the press is not trusted as much as TV. The BBC, in particular, has always trumpeted the value of its independence, and this is reflected in the fact that 61% of survey respondents claimed to have a great deal or a fair amount of confidence in this institution. The press, on the other hand, scored a lowly 7%. Even when asked more specifically about 'the daily newspaper you most often read', only 36% of respondents believed a great deal or mostly that they could trust their chosen paper to be honest and fair. However, 64% of respondents believed that the news on TV was honest and fair.

It will be interesting to see how advertiser-funded channels fare in the trust stakes in years to come. Consumers in general have become both more marketing-literate and more cynical since the huge growth of commercialism. This combination means that they do not take kindly to companies attempting to dupe them with false promises or representations. The 'infomercial' style of ad-funded programming has its advantages, but it is vital that advertisers are up-front about the essentially commercial motives of their programming initiatives. They should also pay due attention to producing interesting, genuine editorial content: lengthy adverts posing as programmes will be quickly identified and quickly punished by intolerant viewers.

Candidates for programme/channel sponsorship

Figure 4.24, compiled from *Media Futures 1999* survey data, demonstrates people's potential interest in programmes or channels sponsored by 20 prompted brands. The highest-ranked option, ie, the one that attracted the most interest as a sponsor, is Virgin, which is testimony to the effectiveness of strong brands. Virgin has relevance for a

Figure 4.24 How interested would you be in a channel or programme produced by the following? % fairly/very interested



Base: All respondents
Source: The Henley Centre, Media Futures 1999

large proportion of the population, and has already successfully turned its hand to a number of diverse sectors. This helps to instil a confidence in people that any programme offering in which Virgin became involved would be of high quality and salience.

Amongst the rest of the 'Top 10', certain media brands score highly: Radio 1, Radio 4 and Classic FM, for example, have very strong identities that would be quite easily transferable to TV. They are niche offerings in that they only appeal to people with a shared taste in music, but this sort of clear branding means that people know what they can expect from any diversification into TV. Other media brands that feature high up the ranking are popular magazines such as *Good Housekeeping, Reader's Digest, Woman's Own* and *Take a Break.* The magazine format is likely to translate well into TV programmes, as has already been seen with recent ventures into masthead programming (such as the *Zest Beauty Show* on the Granada Good Life channel). In these cases, the magazines are perceived to be of high quality, and again, have sufficiently strong identities for a brand extension to be possible.

Interestingly, Marks & Spencer is the lone retail brand in the top 10, and in fact the only non-media brand. This shows that there is work to be done in changing people's perceptions before brand-TV can take off. Marks & Spencer has an excellent opportunity to take the lead in this area, since it always scores extremely highly as a trusted, high-quality brand (75% of our survey respondents believed M&S to be honest and fair) and also because its well-established store magazine already gives it a foot in the media camp.

The brands that appear lower in the sponsorship rankings may suffer from their unfamiliarity as media content names. For example, in cases such as BT and Budweiser, people may be unsure how these brands would translate into a TV programme and therefore what the offer would be. On the other hand, the scores may be lower because the brands occupy niche markets within the population as a whole. Well-defined brands such as Nike could still be strong challengers in the TV stakes. After all, this idea appeals in principle to 11% of the population. If this were to be translated into absolute audience numbers, Nike TV would be a viable proposition!

Advertisers' attitudes

In the previous two sections, we explored two ways in which advertising might develop in the digital future – interactive advertising and advertiser-funded programming. But although the possibilities for these new forms – and even the arguments in favour of them – exist, their adoption is not guaranteed unless those in charge of the budgets are convinced. Just as we analysed consumer attitudes in predicting take-up of digital TV, we must analyse advertiser and agency attitudes in predicting take-up of the new advertising methods. A selection of comments taken from executive interviews reveals that advertising opinion leaders reflect many of the same sentiments and concerns as the general public. The watchwords here seem to be caution, confusion and more than a little cynicism:

Frank Harrison: *"As with any other media, you'd evaluate digital television on the basis of a number of criteria: the number of people who have it (the penetration of digital TV is one of the important elements); information – good, robust research into the audiences of television; the commercial opportunities for advertisers; the responsiveness of people who are watching digital television to the* *advertising that appears on it; and the interactive opportunities of digital television – if and when they appear. So there are a number of different areas which need to be looked at. But initially, when it all starts later this year, it's going to be a 'look and see' type approach.*

"I think advertisers have to have a sense of corporate governance. It's not just a matter of taking big risks to help support a new medium. It's a matter of making sure you are wisely spending your money on behalf of your shareholders. Basically most advertisers will treat it on its own merits and will not hoist an enormous flag saying, 'This is the future of media. We want to control it and we are going to pump 90% of our profits into this medium in the hope that it might become successful.' I think the problem with new digital television is there is very little evidence to suggest that it is going to be an overnight success. The majority of television viewing in 10 years time will still be to the existing channels – terrestrial channels. And it will still be viewed in a passive viewing environment, so that therefore means not a massive amount of change.

"It's very hard to see how the technology will change, what it will provide, how companies will adapt and what opportunities people will make from it, including advertising. But one thing is for sure, a lot of this will complement rather than supplement what exists today. I'm damn sure that in 20 years' time, we will still have passively-viewed 20- or 30-second commercials, the objective of which is to reach as many people as possible within a short time frame and to make them aware of products and services."

Nigel Sheldon: *"The confusion surrounding digital TV, such as STB compatibility, is making some advertisers wonder what it means for their business. Before looking at what it means in terms of interactive services, many advertisers are thinking about what it means to their traditional advertising. For example, how will production have to change, and how will measurement techniques need to be altered – let alone the interactive component."*

Doreen Dignan: *"Certainly, some of our clients will test the waters of digital TV. The most likely early adopters will be those who participated in interactive TV tests. Low out-of-pocket costs and a solid research programme will make a test more attractive. This won't replace traditional TV advertising but it will be an added way of reaching their customers."*

Jayne Darbyshire: *"Initially, we do not anticipate any major changes in our TV advertising strategy. We will still be a big brand and will still need big brand presence on the main TV channels."*

Will Saunders: *"We will adopt the 'wait and see' approach. It's easier for the 'big budget boys' to get involved at an earlier stage, but there are concerns at the moment that production will be more expensive, it will be difficult to measure effects, and take-up will be far slower than the digital TV operators estimate."*

Nik Wilkinson: *"It is difficult to see what will change in the short term. Although there will be more channels, this will have little impact as there will still be a big concentration on the main terrestrial broadcasters. In 2003, ITV will still be the main source of commercial impacts. I have looked at the interactive opportunities available and although it's very interesting, it is very difficult to understand the range of concepts and to establish the time-scale it could take to put these into practice. We should do some learning and stick a toe in the water, but I'm not sure that we will be doing transactions. I think it will be more information and entertainment. If I find all this difficult, what do we think Joe Public will make of it?"*

Paul Longhurst: *"I think it will change the advertising market dramatically but it will be a fairly long process. We are talking about a fantastic* *amount of investment from the media owner side and, politically, the government is behind it, so it will happen. But there will be an enormous cost in bringing that product to market, and marketing it to the consumer – and it will take time. I suspect that the advertising industry will be slow to respond to that change. I think they will take that view that, yes, change is inevitable, but we are not about to restructure ourselves and not about to talk to our clients differently as a result of a change in technology and a change in what's available to the consumer. We will wait and see. We accept that we will have to do something, but we will not do it as of early transmissions. We will wait and configure our product as we feel appropriate, and dependent on how that change comes about."*

It appears that a sizeable proportion of marketers and agencies who hold the advertising purse-strings are not ready to embrace the new opportunities wholesale. The 'wait and see' approach seems prevalent; as Nik Wilkinson comments with wry understatement, *"I'm not panicking yet about getting left behind!"* Moreover, there is an urgent need for more information about all aspects of the digital TV offer during this stage of waiting. It therefore falls upon digital TV operators to look beyond consumers in their marketing efforts. Advertisers too must be reassured, educated and sold the benefits of early involvement. If this is not achieved, the funding problems of the new channels could be exacerbated as advertisers stick to the traditional advertising methods they know best, or channel more resources into 'safer' methods over which they have more control, such as direct marketing. Having said this, advertisers do have a history of supporting new ventures, such as satellite TV. Moreover, existing channels such as ITV , Channel 4, Channel 5 and Sky One will still be available on digital, so to a certain extent it will be 'business as usual' for advertisers.

Some of the concerns voiced above over such issues as audience penetration and response to interactivity have been dealt with in earlier sections of this chapter. However, one area that has not yet been examined and which will clearly be of great significance, is the issue of audience research. This impacts on the issue of media planning, which, in turn, feeds into an analysis of the new role that the advertising/media agency will and must adopt in the digital age.

Bye bye BARB!

If many advertisers feel that digital TV amounts to something of a 'venture into the unknown', then the absence of robust audience research in this new territory can only compound feelings of insecurity. At present, the meter-based measurement system employed by BARB identifies the analogue channel being watched through frequency detection, ie, by recognising the unique signal transmitted by each channel. The problem is, with the move to digital, several channels will share the same frequency, thus rendering the old method obsolete.

There are various ingenious new techniques that could be developed in its place. For example, the research company Taylor Nelson AGB (which is bidding to retain the BARB contract when it comes up for renewal at the beginning of 2002) is proposing an new system called PictureMatching. This would involve recording a sample of the TV picture in each panel household. The electronic information that creates the picture is then compared against a library of picture data drawn from each broadcast source and identified as being from a particular channel. The advantage of this system is that it can be used to identify time-shifted material.

An alternative is the Personal Portable Meter, developed by Arbitron & Continental Research, which can measure both television and radio consumption. A passive meter is worn by panel members at all times, and this picks up audio signals transmitted by each channel or station to which the panel member is exposed. The appeal of this idea is that it records all TV viewing, be it in the kitchen, the bedroom, a friend's house or even the pub.

However, both these systems and others also have disadvantages and technical hitches that must be overcome. The process of developing a new system will take time and will cost millions. These types of radical changes will not be in place for some time after the launch of digital TV, meaning that it is actually not in advertisers' interests for digital uptake to be too quick in getting off the ground, since a large element of TV viewing would then be unmeasurable. In the short term, while a new research system is evolving, other options must be considered:

Frank Harrison: *"If digital penetration is 10%, we'll just factor it in and assume that people in digital satellite homes are watching too – we can model it on the back of analogue viewing. But it's difficult because on digital, you've got a different offering. You've got pay-per-view movies and a variety of other things that are not available in analogue homes."*

Alternatively, a supplementary diary system could be used to measure viewing of digital channels, and these figures too could be factored into a model. In the longer term, Frank Harrison predicts that research will adapt to its new requirements, becoming more comprehensive and intelligent. Computer-assisted analysis of this research will also improve, making the planning role *easier* than it is now.

Although this scenario seems to address clients' demands for more accountability in their advertising, it may be that going further and further down the technology route will actually *hinder* the achievement of this objective. Although it will be some years before digital makes its greatest impact on the TV and advertising stage, advertisers need to be prepared for this day. They should be aware that, in order to gain ground, they must fight a digital campaign not with *more of the same weapons* but with a whole new strategy.

Channel fragmentation will make minute-by-minute trading on individual commercials nonsensical and uneconomic (although, arguably, minute-by-minute analysis could make a crucial contribution to highly targeted relationship marketing). It would likely result in many more programmes achieving TV ratings of zero unless the number of panel households was significantly enlarged. The ongoing costs of increasing the sample size would have to be borne by those parties who fund the BARB research. It is at this point, faced with the prospect of a large bill, that advertisers may decide to review their research strategy. Even if it becomes possible to carry out a more universal kind of research by reading information from household STBs or by monitoring all cable homes (which assumes the majority of the British population connects to cable in the future), this will be an inadequate approach if used on its own:

Glen Parker: *"We could end up using the STB as a means of measuring viewing as well as recording people's transactions. It could measure all this. Nevertheless, just using this quantifiable data or BARB isn't enough to truly understand how and when the audience may interact. Additional research is required, including qualitative analysis, to interpret modes of TV viewing. In an interactive world,* *we will need to know how and why they interact as well as when."*

Paul Longhurst: *"I think BARB is completely outmoded. It is a user-friendly currency which measures the number of people who could be watching at that particular time, but it doesn't take any account of people's behaviour and how they live. I don't think a lot of BARB's clients have much confidence in it – the margin of error is really not that good. I think in future there will be measures closer to the end delivery point – the increase in sales behaviour or customer growth."*

Nik Wilkinson: *"There will be huge research implications for digital TV. We will be interested in the quality of viewing much more than just the Opportunity To See which is currently measured. Even now, we treat the main channels differently from satellite and cable channels as we quickly run into data limitations with the smaller channels."*

Jayne Darbyshire: *"At the moment, people rely on the BARB sample of 4,500 homes. It should only be used as a guide, and should be supplemented with other research such as ad hoc surveys, TGI and focus groups."*

Will Saunders: *"Lessening the impact of BARB means advertising research will be more business-orientated. It will come down to meeting objectives for the whole communications process. Planning will be more holistic and advertising more accountable. Players with bigger budgets will do more of their own research and they could even set up their own panel."*

The total planning experience

The comments made above by Will Saunders suggest that, as well as a new approach to research, the digital era will entail new roles for those involved in the advertising process. Relationships between advertiser, agency and media owner could shift in balance, and the position of the advertising agency could be under particular threat.

Advertising budgets are already declining as a proportion of overall promotional budget and, if this happens, agencies are in danger of losing more influence over their clients' marketing strategy. Advertisers are then likely to exert more control, either carrying out strategic planning and research in-house, or farming it out to a number of specialist consultancies.

Media owners are also now very much more proactive at helping clients to make the most creative and effective use of their medium. Radio sales houses make commercials, magazines have creative departments and skilled designers and, in future, advertisers may go directly to TV companies in order to take advantage of new ad-programming opportunities:

Paul Longhurst: *"You have to question what the advertising agencies bring to the party. If BSkyB thinks about launching a pub channel, then they will go and talk to Courage – they are not going to go through an advertising agency. And if smart clients want to experiment with formulating television communication, then they could do this perfectly adequately with the broadcaster – a one-stop shop. So why go to the advertising agency and spend all that time getting a creative brief and then putting it out to the production house when the broadcaster will have the same facility and potentially the same creative talent to deliver the message to the consumer in an imaginative way? So there is no role for the advertising agency and I think that's a big threat."*

But agencies *can* have a place in this new digital world if they make sufficient effort to adapt to it. In fact, there are even opportunities for them to *increase* the role they play at present by offering a greater range of skills and services, and by becoming more efficient. Although there will be competition from different specialist agencies, a case can also be made for more integration of marketing services and, in this respect, advertising agencies have a head start. They are perhaps closest to the brand, having a good understanding of the consumer's relationship with it and an overview of this communication process. As such, they are well-qualified to act as 'custodian of the brand'. But to do this, they must embrace a wider reference of thinking.

Will Saunders: *"At the moment, advertisers may pay agencies to think outside the box for them, but agencies still tend to think within a certain framework. This must change. Motive, for example, is now far more involved in the whole communications process, not just media."*

As far as the media side of advertising is concerned, there are grounds for optimism. Media specialists are likely to prosper for their expertise in finding or creating vehicles for promotion, including sponsorship, programme production and interactive applications. They can broker deals in this department as well as offering strategic advice in an advisory role.

Jon Wilkins: *"I think we're in a better position than a creative agency because, at the end of the day, clients are going to need someone to advise them whether they should be sponsoring, advertising, interacting or Web-siting. There will also be a move towards a more grown-up treatment of media owners. In the old days, people would try and get the cheapest price, irrespective. But as media becomes a more valuable commodity and an integral part of how you develop relationships with your customers and as media begins to provide interactivity and sponsorship and a lot of better-value stuff, we will be looking to have more proactive, strategic relationships with them. Clients have to learn to treat media owners with a lot more respect and use agencies to broker the relationship. Media is now a vital marketing tool, rather than just somewhere you place ads."*

This suggests that there will still be what Frank Harrison calls *"a relationship of positive friction"* between advertiser, agency and media owner. However, from the agency's point of view, this depends on it being able to offer total planning expertise. By crossing the borders between traditionally separate areas such as above-the-line, below-the-line, sponsorship, relationship marketing, interactive technology and programme production, the agency will earn the right to sit at the top strategic table of its clients and thereby safeguard its position in the digital future.

4.5 Conclusions

Forecasts

Figure 4.25 details our five-year forecasts for the take-up of digital television and other Pay TV in the UK. We predict that just under 45% of homes will have gone digital by the end of 2003, representing 11.8 million homes. This will be facilitated by:

- subsidised STBs and, in later years, the purchase of IDTVs
- migration from analogue satellite and cable services
- increased build in the cable network
- low-priced entry packages
- free-to-air riders

Although our projected figure seems high, our forecast actually suggests that over 2 million homes (8%of households) will only subscribe to the free-to-air services on digital

Figure 4.25 Five-year forecasts % household penetration

	1998	1999	2000	2001	2002	2003
Digital television						
Satellite	1.2	6.0	10.7	14.1	16.0	17.4
Cable	0.0	0.6	2.0	4.6	8.6	11.4
Terrestrial	0.1	1.0	3.0	6.3	10.6	16.0
- Terrestrial free-to-air	0.0	0.3	1.0	3.0	5.0	8.0
- Terrestrial Pay TV	0.1	1.0	2.0	3.3	5.6	8.0
Total digital	2.3	8.3	16.6	25.0	35.2	44.8
Pay TV (analogue/digital)						
Satellite	17.1	18.0	18.8	19.5	19.8	20.0
Cable	10.7	12.0	13.5	15.4	17.2	18.9
Terrestrial	0.1	1.0	2.0	3.3	5.6	8.0
Total Pay TV	27.9	31.0	34.4	38.2	42.5	46.9

Source: The Henley Centre 1999

terrestrial television, giving digital Pay TV services a penetration of 36.8% of homes. When existing analogue and cable customers are taken into account, this suggests that digital will attract just over five million new customers by 2003 (20% of UK households).

We predict that just under half of customers (47%) will be paying for a proportion of their television services by 2003. Although our survey suggested only 35% of customers would currently pay a monthly subscription fee for television, we believe that penetration will rise above this figure due to:

- increasing consumer acceptance of payment for television services
- bundling of TV and telephony payments by cable companies
- the introduction of PAYG television services

Satellite

Overall, we suggest that satellite will be the winner in digital terms. With first-mover advantage, expert marketing and ownership of key programming rights, BSkyB will have connected 17.4% (4.5 million households) to its digital service by 2003. It will have successfully migrated most of its analogue service, and will be planning to turn this off by 2005 at the latest.

Though BSkyB will have succeeded in getting over a million new subscribers who have not previously subscribed to Sky, it will lose some customers to cable and terrestrial services. Sky will be able to recover its investment in digital not only from new customers but from added-value PPV services.

Cable

Cable will have 3 million digital connections by 2003, representing 11.4% of the population. Our forecasts suggest that digital cable connections will be slower than satellite due to:

- cable being the last digital services to be launched
- limited marketing budgets
- slower roll-out, with cable companies having to make large investments in STBs

We predict the future for cable to be bright, however. All (analogue and digital) cable connections will have reached 5 million households by 2003, only a quarter of a million short of total satellite subscribers. Consumers will be attracted to cable due to superior interactive services, flexible payment systems and bundled telephony packages. We predict that cable connections will overtake satellite by 2004 and that cable will rapidly convert the majority of its customers to digital by 2005.

Terrestrial

We forecast that *Pay* digital terrestrial services will have reached 8% of the population by 2003 – 2 million homes. ONdigital will find the going tough for the first few years, only reaching half a million homes by 2000. Growth for ONdigital will be slow due to:

- lack of national coverage
- perception of inferior programme offering by traditional early adopters
- reluctance of ONdigital's Middle England customers to make up-front investment and subscription costs

ONdigital, if tenacious, will build up a profitable audience by 2003 by:

- playing on its ITV heritage
- targeting customers with IDTVs

We believe that ONdigital has excellent longer-term potential, given that digital terrestrial will eventually achieve universal penetration. If it is able to offer PAYG services and ensures that all IDTVs are able to receive its services, ONdigital could rival Sky and the cable companies in years to come.

The biggest danger for ONdigital is that consumers will not be attracted to its programming and will stick to the free-to-air services only. Though free-to-air subscribers will not be a threat initially (STBs will only be subsidised for those customers who subscribe to ONdigital), falling technology prices will remove this obstacle. By 2003, we predict that half of all digital terrestrial subscribers will not subscribe to ONdigital, with free-to-air riders accounting for 8% of all digital households.

2003 – The Henley Centre's forecast

Sky has made the most of its first-mover advantage and is the leading supplier of pay digital services (see previous section) in 2003. After a late start, cable has converted 3 million homes. ONdigital found the going tough in the early years although, due to take up of IDTV's, it has by 2003, managed to build up 2 million customers. Free-to-air riders on digital terrestrial have grown with the penetration of IDTVs and represent 8% of the market by 2003.

The government has side-stepped the issue of analogue switch-off by announcing that it will only set a date once digital penetration has reached at least 90% of households. It is estimated that this will be around 2013. There is also a qualifying clause that takes account of second and third set penetration, although the detail of this ruling will depend on the price of STBs by this time.

A new regulatory body, OFCOM, (created from the merger of OFTEL and the ITC), has the power to rule on both telecoms and media. One of its first initiatives was to relax rules on sponsorship and advertiser-funded programming, allowing the promotion of brands on digital TV.

All platforms initially lured subscribers with low subscription costs, with extra revenue being made from the growth in PPV. As well as films, certain key 'killer' programmes are now being launched as PPV services. Cable companies have been particularly forward-thinking and have started to offer PAYG payment systems as an alternative to the monthly payment subscriptions. Consumers pay for the TV they actually watch, with itemised bills being added to the household phone bills. This suits the viewer who wants to dip in and out of the digital universe without having to make a monthly commitment. PAYG services are being planned on digital terrestrial to lure the increasingly large numbers of free-to-air riders.

Large media owners are gunning to own the rights to premium content, especially sport, films and music events. There has also been a bidding war for the top 20 'killer programmes', which have become channel-neutral. Often these programmes make use of various windows of viewing, decreasing their prices as they do so. Fortunately for the media owners who lack such deep pockets, lower production costs have enabled them to make original, first-run programming for increasingly niche audiences.

Channel brands are still in evidence, but the most successful ones have very strong brand identities. Consumers tend to have a repertoire of about 10 channels that they surf through or select on the basis of listings guides. People use EPGs for less familiar channels and sometimes when they are watching TV with no particular goal in mind – 'pottering viewing'. The use of the EPG meant that some smaller channels were not at all well-known and did not have a strong brand image. However, even the strong brands are beginning to lose some of their pulling power, ironically due to their own brand extensions.

BBC Choice and ITV2 have started to cannibalise audiences from their parent channels by showing shufflecast programming (repeats from the main channel). This has become an increasing problem as more people subscribe to the new free-to-air services through digital terrestrial.

Standard marketing techniques have helped to increase penetration on all digital platforms and channels. In addition, PAYG price deals are being linked to promotion and direct mail schemes. The first loyalty programme has just been announced in 2003, offering incentives and rewards for frequent viewing of a particular channel or programme. ONdigital has had the most difficult marketing task as its Middle Englander targets have not been particularly receptive to the standard marketing ploys. This situation has been exacerbated by these viewers' confusion over the different platforms on offer, which has caused many of them to stick their heads in the sand and ignore the whole issue.

20% of households have true interactive capacity. Generally, the response of viewers has been that interactive TV is OK if it enhances entertainment, but it is not valued for its own sake. Sky has taken this on board and, as a result, has produced the most popular interactive programming features. However, cable services have fared better than satellite in terms of 'interactivity on TV', ie, interactive services. Cable's success in the last few years has largely been due to its open Internet standards. Although companies may need to redesign their Web-sites for the TV, this is far easier than designing from scratch, as was required for the BIB system. BIB's limited selection of services and suppliers became resented by viewers, although its proprietary system allowed higher transaction revenues. Once the cable companies had developed well-designed home pages with collaborating partners, BIB's 'easy to use' advantage was removed. It could not compete on any front, and eventually folded into the same open Internet model in 2002. Furthermore, whereas BIB could only offer its services over TV, the cable companies can provide services on both TV and PC. This has had important implications for interactive advertising as those households with PCs can click through ads from the TV to the computer screen, interacting with the ad in a more 'lean forward' manner. By providing another window, this approach intrudes less on TV schedules. Advertisers have been quick to catch on to this opportunity and, since cable companies began to offer subsidised deals for PCs, key advertisers have co-funded the venture.

The most successful applications have allowed viewers to remain in 'lean-back' mode, leading them through certain sites and enticing them to interact rather than leaving them to fight for themselves on the Web. Another popular feature has been rotating front pages that reflect the time of day or week. 'Lean-forward' interactivity, eg, home-banking, e-mail and utility billing, was slower to migrate to digital TV services until it adapted to its new environment. However, many viewers still use PC-based Internet services for these type of activities.

Amongst the new information and transaction possibilities, the entertainment sector's services have been in great demand, eg, for video games, gambling, cinema and theatre booking. Travel and clothes sectors have also done well. Consumers have continued to source information about news, weather, health and cars, but have largely chosen to transact via other routes for the higher-ticket items.

Recommendations

Digital TV is here to stay. Don't ignore it. Nearly half of all homes will have some form of digital television in the next five years. This means you need to consider how digital TV will affect your business and formulate an approach that maximises the opportunities.

Broadcasters

Pay TV operators should:

- offer complete flexibility in the number of services offered;
- allow consumers to 'pay as they go', rather than making them pay high up-front subscription costs;
- join forces with channel operators to market channels and programmes to customers.

Channel owners and packages should ensure they:

- own programming rights and production to avoid bidding wars;
- give channels distinct brand identities to make sure they have a clear position in the consumer's mind and are part of the consumer's evoked set of TV channels;
- use relationship marketing techniques to seek out viewers. Promotions and loyalty schemes would enhance relationships and ensure a regular stream of viewers to their channels;
- work closely and proactively with advertisers, approaching them with sponsorship/programming ideas or promoting the interactive possibilities of digital TV. If they fail to do this, they may find that more advertisers bypass the media and use their own resources to communicate with

consumers, eg, by direct marketing or via their own Web-site.

Advertisers: communications

Digital TV will not lead to an increase in TV viewing time. With mass audiences becoming harder to reach using traditional spot advertising, advertisers will need to formulate more adventurous media campaigns. Advertisers should ensure they:

- think laterally. For example, by investing in quality, crowd-pulling programme productions, companies can create their own advertising opportunities within and around the programme;

- give the consumer tangible benefits in return for their viewing time. For example, by sponsoring or even producing certain programmes advertisers could offer benefits to viewers in the form of reduced PPV charges, a less cluttered advertising environment, or better-quality programming targeted to their interests;

- use targeting opportunities intelligently, eg, database marketing and sponsorship. This should reduce wastage and ad avoidance, but it also allows for the provision of a differentiated, premium service to loyal customers;

- take care not to overdo the relationship marketing efforts by bombarding the consumer with information or intrusive advertising, especially for 'low-interest' items. Even by assuming that such a relationship exists and is sought by the consumer, you risk provoking irritation, resentment and suspicion;

- take steps to ensure that the quality of TV production demanded by viewers is maintained as broadcasters try to fill more and more broadcast hours;

- beware of extending the brand too far. Programme production is a new ball game for most, and to be successful, advertisers must exploit the perceived competencies of a strong, trusted brand;

- don't try to dupe the consumer about the essentially commercial motives of ad-funded programming. The line between editorial and advertising is blurring, but the cynical consumer of today is more adept than ever at identifying and dismissing cheap marketing tactics;

- conduct advertising research that is more focused on understanding the viewer and the quality of the viewing environment. Rather than simply sharpening the old research tools, new ones must be developed.

Interactive services

Although interactive services could take a few years to establish themselves on digital TV, companies that conduct research and experiments now could reap rich rewards in future years. While there are conflicting systems, many advertisers are not sure which path to tread. *Media Futures* recommends that, if in doubt, advertisers should start by developing HTML standard interactive systems for digital television, adapting content from current content on the web where possible. When developing sites, advertisers should:

- remember that viewers could begin by using the service in a 'lean-back' mode, and that two or more of them could be using it together;

- tempt the viewer with 'push' techniques, rather than simply waiting for them to click through to the relevant pages. The biggest challenge is shifting people from seeing ads passively to encouraging some sort of action;

- focus on the benefits to the consumer. Interactive ads do not simply provide *marketers* with improved direct response and advertising accountability. They can also provide improved service and convenience to the consumer, and should be designed and promoted as such;

- ensure that their business is structured to accept on-line business and to fulfil client demands and orders. Disappointment caused by lack of foresight or early teething problems could have a damaging effect on the parent brand and on interactive services as a whole;

- develop interactive TV services that work in harmony with the company's traditional methods, so that the consumer can use whichever channel is most convenient at the time;

- remove the second-guess element as far as possible. Commit to the type of research that gets under the skin of TV viewers, tracking their responses to early interactive applications and remaining sensitive to their changing needs and perceptions of the TV as an interactive medium.

Agencies

In order to secure their role and avoid being left out in the cold, agencies should:

- embrace a wider reference of thinking and a more holistic planning process. They should pursue wider *business* objectives on behalf of their clients, and evaluate advertising effectiveness on this basis;

- place emphasis on a working partnership between media owners, advertisers and agencies. The media should be recognised as a vital marketing tool, not just somewhere you place ads. Media agencies are ideally placed to broker the relationship between media and advertisers, and must manoeuvre to make themselves invaluable in this respect.

MEDIA FUTURES 1999

new media: new questions, new answers

5 New media: new questions, new answers

In this section, we draw together insights from the previous chapters of Media Futures 1999 to address the 'big picture' issues regarding the emerging digital economy and the key challenges for media owners, content providers and advertisers. We explore five key themes which we believe will be the important factors shaping this new world. They are:

- The need to remember that the world of technology may be going digital, but people are definitely still analogue
- The implications of the two new dimensions of the media – depth and time – that are made possible by digital interactive technology
- The strategic options for media companies faced with the increasing competition for consumers' time and money resources
- The need to think laterally about the kinds of relationships that need to be formed to successfully compete in the digital world
- The importance of understanding the 'why?' and 'how?' questions about consumers in the digital age

5.1 People are analogue

Computers are around us; we come into contact with them every day of our lives. We may be highly aware that we are 'interfacing' with a computer, such as when we use a PC or are getting cash from an ATM; or we may be less aware, such as when we are pressing a button in a lift or driving a car. Even if we are not actually using them – pressing buttons, pulling levers or twiddling knobs – the output of computers comes streaming through our doors and into our homes – bills, direct mailshots or bank statements. Computers, or rather, chips and programs, are everywhere – there is no avoiding them. But, we should stop, think and realise: "we ain't seen nothing yet!". The next ten years will be more computerised than the previous forty combined.

New digital platforms, operating systems, products and content will proliferate. The world we live in will be digital. On's and off's will flow electronically through society – down cables and in the very air we breathe. In this way, Media Futures 1999 has been about the arrival of a digital world, not as an abstract concept or far-off prediction – "*The Henley Centre believes that in ten years' time…*" – but as something that is here and now. As Des Lynam might say: "*If it wasn't intangible you could reach out and touch it*". Budgets are being spent, products are being made, the marketing is happening, consumers are buying. The moment of forecasting is past.

It is the technology of this new digital world that is setting the pace and scale of change. But, the companies who are spending the budgets, making the products and doing the marketing set the direction of that change. The direction that technology is taking seems to meet the aims and objectives of an *old* age, rather than of the new society that has actually given birth to the digital order. As is often the case, new technology is used to modernise existing ways of doing things rather than breaking with the status quo and changing the way that things are done. The latter is more risky, but it is also the way that successful companies continue to be successful.

Like no time before, consumers are aware of the commercial processes that push and pull at their lives. They want to use the market power that they have been told they possess to exert some force of their own. The idea of the sovereign consumer that was given so much air-time during the 1980s means that consumers now want to feel in control.

With the arrival of the digital world – the heady pace of technological change and the new operating systems and programs that spring up all around them – it is all too easy for consumers to feel lost and dis-empowered. It is them, and not the machine, that is being put in the black box. They begin to feel like a thing in a digital process rather than a free consumer able to make decisions – to say 'yes' or 'no' and most importantly, the non-binary answers: 'maybe', 'I'm not sure', 'what do you think?', and so on into indecision. 'It does not compute' might be the most accurate description of the consumer today.

Alongside this desire to be in control, comes an increasing awareness among consumers that they are important. However, this feeling of importance can mean that they feel galled at being carried along in the binary flow. But, it also means that they know their own value, that they are aware that they can choose your company, or they can choose another. The choice is the consumer's, and it is also the company's. Companies can lubricate the consumer's decision-making, they can reduce the friction of a decision.

New technology has been used over and over again as a way of increasing value for the producer. Eventually, the consumers enjoy the benefit, but first it is enjoyed by the producer – costs are cut and profits increased. In the new digital world, technology must be used to increase **consumer value first**, and **producer value second**. Allowing people to make savings in time and money or both can increase consumer value. The world is getting more and more complex, increasing complexity costs money and time. Consumers do not want to have complexity off-loaded onto them. They want to find havens of simplicity and convenience. It is companies that will have to work harder and not their consumers.

What does all this mean?

In the digital age we have to stop and constantly remind ourselves that while machines are digital, people are analogue. Companies making products, spending budgets and doing marketing, have to understand how consumers – the people doing the buying – are going to use the new digital tools that are now available to them. This means understanding that:

- **Consumers do their own thing with technology**. Once a technology has been taken home and taken out of the box, the uses it will be put to are unpredictable. This is particularly true of communication technologies, which have an inherently subversive streak to them. It may be difficult, but people eventually find a way of harnessing new communications technologies to increase their power and meet their needs. In the world today, it is better to recognise this and go with it, than to deny it or resist it.

- **Consumers might not want companies to know them**. Information technology has caused an obsession with collecting data on customers. This has reached its most extreme with the on-line profiling that occurs on the Internet. The number of questionnaires, forms and surveys that consumers are being asked to fill out seems to be rising exponentially. Consumption is falling under the 'bureaucratic yoke' – consumers are no longer wrestling with red ribbon, but red tape! Honesty in these circumstances is a function of the clarity of the consumer value-proposition – consumers have to understand what they are getting in return for information, what is in it for them! Consumers know that a deeper relationship and a deeper understanding of their needs can be translated into getting a deeper reach into their pockets. However, if it is not worthwhile, or in the right circumstance, consumers will ignore or lie through the most sophisticated data-collection methods.

- **Consumers want technology that adapts to them**. Computer systems are still engineered and not designed. It is crucial to design systems for people to use, and not for machines to produce. The watchword of computer technology has been 'user-friendly' for over twenty years. A realistic assessment of the computer industry might cast doubt on its ability to translate theory into practice. Recognition that ergonomics applies as much to intangible products as it does to tangible ones has yet to be made by the computer industry.

- **Consumers have passion**. For instance, the way most people have used the Internet is to explore a passion and find somebody else who shares that passion. The worlds largest computer network is not about subject classifications bounded disciplines and indexes of catalogues. The 'silence please' signs that hang in libraries are out-of-step with the Internet 'flame wars' breaking out all the time. 'Keep off the grass' signs in parks have little place in an environment where spam e-mail is increasing. It is about passion, enthusiasm and emotion. The rules and regulations that govern the world of computers are constantly defied by the unconventional, esoteric and diverse interests of individual people. This is because computer-mediated communication is allowing an environment of socialising, sharing and reciprocity to develop, and is allowing new types of communities to form on-line. In these communities, it is the people who make the rules through conviction, argument and consensus, rather than the computers through operating systems, programs and interfaces.

- **Consumers have ingrained behaviour**. New technology enters a world where people already have highly ingrained behaviour and habits. Everyday life is structured by social, cultural and economic processes that new technology finds very hard to dislodge in the short- to medium-term. To get consumers to adopt and use new technologies it is far better for them to be designed or positioned to run *with* the grain of those habits and behaviours rather than against them. Digital television and interactive television have been launched into a world where viewing behaviour and habits have been formed over decades and generations. The technology might be new, but the audiences are still the same. Internet users still prefer to go to the shops to buy things – is that really a surprise?

- **Consumers think differently**. The way people think about the world is fluid, associational and lateral. The structure and organisation of companies, markets, product lines or distribution channels may seem logical and make sense from the supplier side of the fence, but they can also seem illogical and nonsensical from the consumer side. Where boundaries, divisions and edges might be important for internal systems and accountability, they seem like blockages and barricades to the consumer. The links that consumers make across these boundaries can be seen as potential synergies. Consumer perceptions and expectations should be at the heart of the blurring of boundaries and the creation of new organisations and business relationships. Likewise, consumers might also see boundaries and distinctions where none are thought to occur.

Technological and market convergence

The new digital world has been characterised as a world of convergence in two spheres: the technological sphere and the economic sphere. In technological terms, the onset of digitisation means that all 'content' will have exactly the same form – binary code. This is what Nicholas Negroponte, director of MIT's Media Lab, has called the switch from atoms to bits. Thus, the over-arching form of distribution becomes common across all forms of media and communications systems – they are all digital. Digitisation drives content convergence.

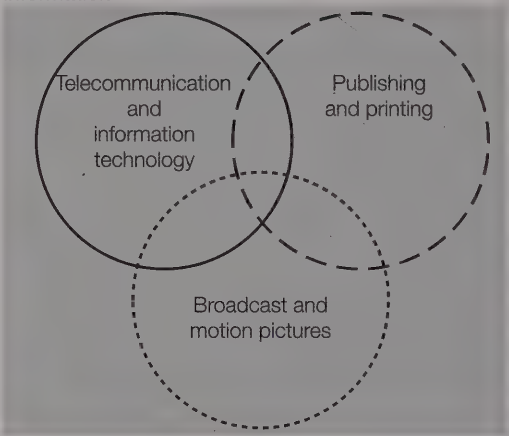
In addition, the computers that process and manipulate this binary code will start to integrate. Rather than a computer being made up of discrete chips which all perform their separate functions and tasks, each of those separate chips will be merged together onto a single piece of silicon – one chip does it all. Gordon Moore, one of the founders of Intel and the originator of Moore's Law, said that:

> *"The whole point of integrated circuits is to absorb the functions of what were previously discreet electronic components, to incorporate them into a single new chip... Thus, semiconductor technology eats everything, and people who oppose it get trampled".*

In Moore's terms, we are not seeing a process of technological innovation, but an unstoppable force, which knows no immovable object.

The old technical distinctions between all the different media platforms – newspaper, television, computers, telephones etc – and the content, articles, games shows, spreadsheets, conversations etc, that can be accessed by them will vanish. This is technological convergence.

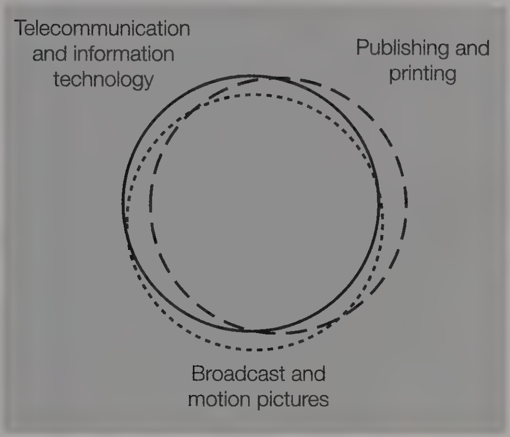
Figure 5.1 Pre-convergence: the separate spheres of IT, telecommunications and entertainment & information


Telecommunication and information technology
Publishing and printing
Broadcast and motion pictures

Source: The Henley Centre, Planning for Social Change 1995/96

In economic terms, the boundaries between communications, information technology and information and entertainment companies also starts to blur. As the technology alters the way that content is produced, distributed and accessed or exhibited, so it alters the structure of the markets. Separate analogue markets converge into a single digital one. The cost of distributing and reproducing content also starts to drop (although the cost of talent, inspiration and creation starts to rise).

Figure 5.2 The blurring boundaries between IT, telecommunications and entertainment & information


Telecommunication and information technology
Publishing and printing
Broadcast and motion pictures

Source: The Henley Centre, Planning for Social Change 1995/96

The net result is a shift from a world marked by separation to one marked by convergence. A number of commentators and industry leaders have suggested that the technical logic of this process is that, eventually, everything will be in a single, unified unit. For instance, the CEO of Compaq, Eckhard Pfeiffer, outlined a bold vision of the 'all-in-one' future in 1997 when he stated that the telephone, TV and computer would all be rolled into a single unit inside five years.

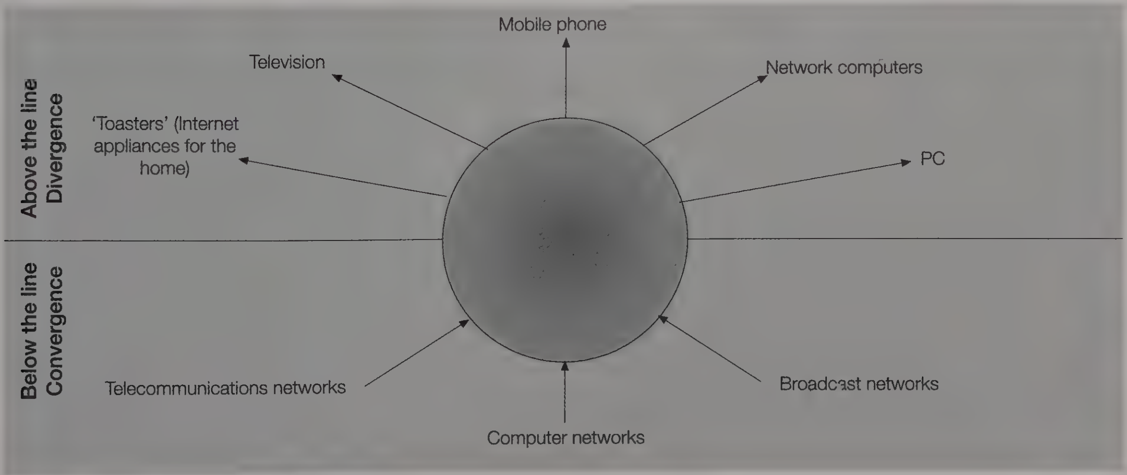
Thus, the drivers of convergence can be seen, on the one hand, as technologically driven by the potential of digitisation, and, on the other hand, as being market-driven by competitive pressure. New markets offer the possibility of new sources of growth. The possibility of being the gatekeeper or screenkeeper, the owner of the single point of contact with the consumer, is too great for many companies to resist.

Consumer-driven divergence

The Henley Centre believes that this approach, while obeying a technical and economic logic, does not respond to the needs and behaviour of consumers. The process of convergence has to be tempered and met by an equal process of divergence. In other words, there is an immovable object – the consumer and their life.

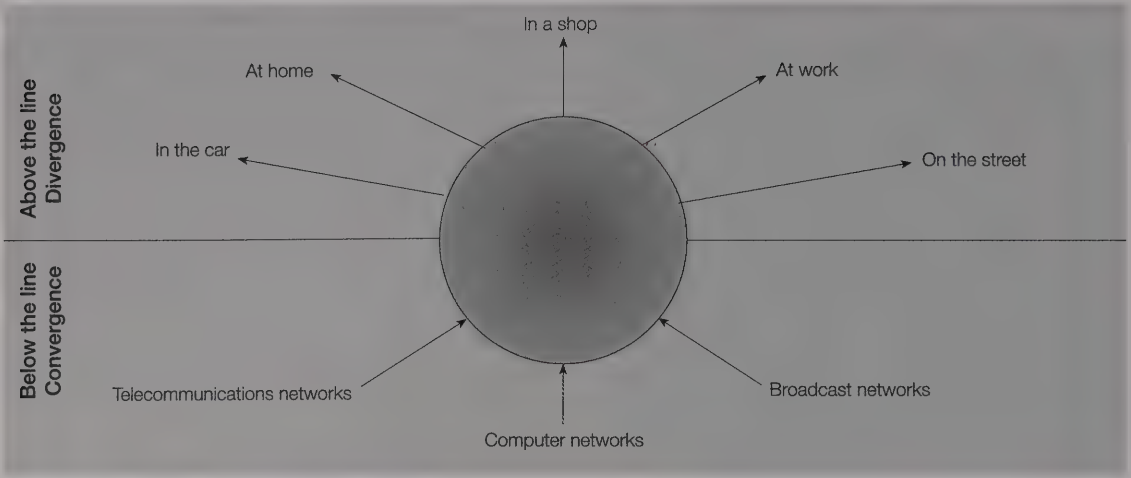
The convergence of distribution systems and production techniques around digital content and open systems must allow a divergence of access platforms to occur. The ways that consumers will interact with the digital

Figure 5.3 Convergence creates the need for divergence Digital technology meets the analogue consumer


Above the line Divergence
Below the line Convergence
Mobile phone
Television
Network computers
'Toasters' (Internet appliances for the home)
PC
Telecommunications networks
Broadcast networks
Computer networks

Source: The Henley Centre, Media Futures 1997

Figure 5.4 Understanding the context of use Time and place-driven needs



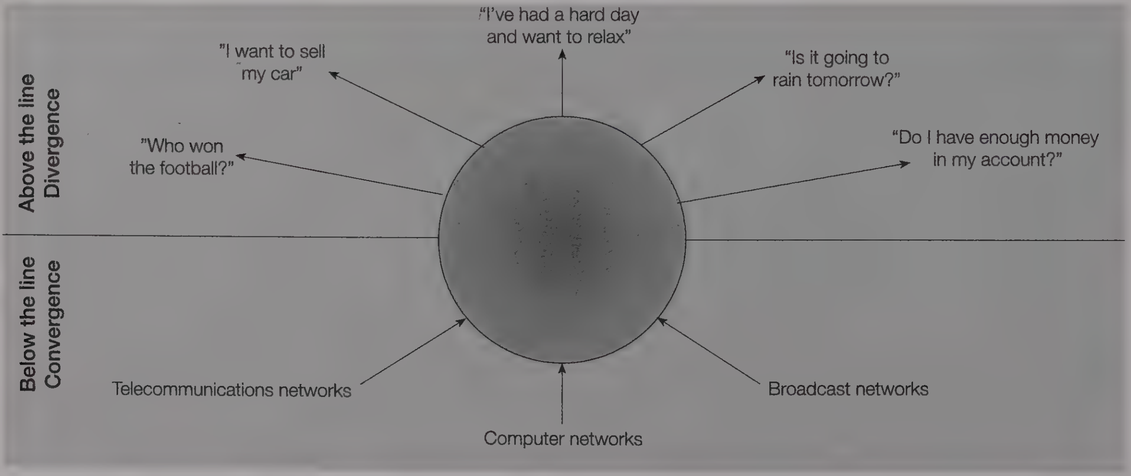
Source: The Henley Centre, Media Futures 1999

technologies all around them are highly needs-driven and context-specific. The old technical and economic boundaries between media hid the inherently mode-based nature of media consumption. Now those boundaries have been removed, it is necessary to build systems that put the needs, modes and contexts of media consumption at the heart of strategy development. Thus, convergence 'below the line' has to be matched with divergence 'above the line'.

Because technologies start to blur does not mean that consumer needs do. Markets will continue to remain separated by consumer demand for particular goods and services, at particular times and places. Technologies will have to be developed that fit the consumers' changing environment, as well as the development of content that will fit the consumers' changing needs.

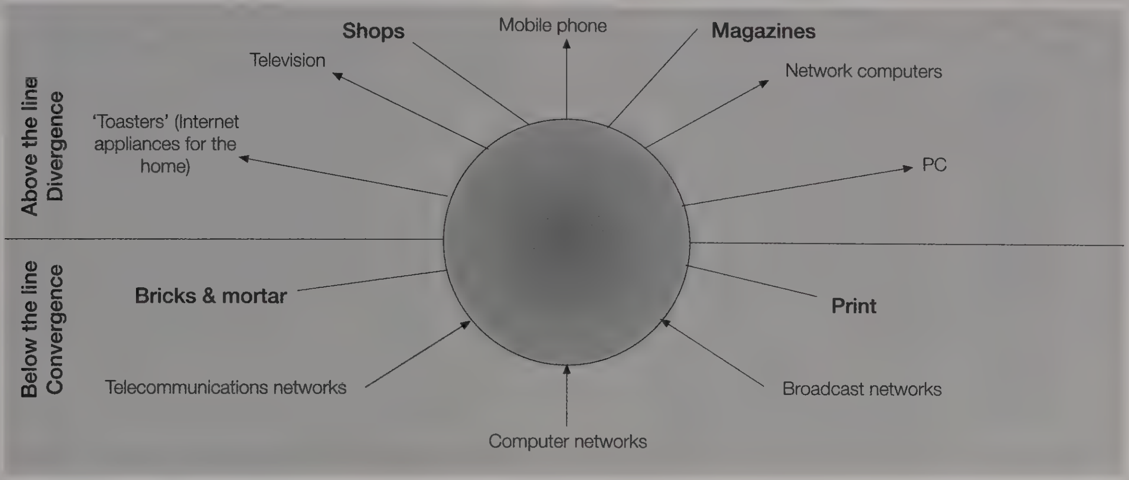
A mixed economy of access platforms will develop in which content has been specifically

Figure 5.5 Understanding needs Consumers have needs to be satisfied


"I've had a hard day and want to relax"
"I want to sell my car"
"Is it going to rain tomorrow?"
"Who won the football?"
"Do I have enough money in my account?"
Above the line
Divergence
Below the line
Convergence
Telecommunications networks
Broadcast networks
Computer networks

Source: The Henley Centre, Media Futures 1999

Figure 5.6 Covering all options: being in the right place at the right time Analogue, digital and brick!



Source: The Henley Centre, Media Futures 1999

repackaged and 're-animated' for each of those platforms. It is the particular content that a consumer wants as well as the context (time and place) in which they want it that will determine the choice of platform.

The inherent flexibility of digital media must be used to cater to the broad range of consumer needs. This means that, from a supply side perspective, the important thing is to remain distribution-system neutral and platform agnostic. In the short-term, it might seem sensible to be tied into a set of proprietary standards, but in the longer run this will cut out many other ways of accessing the consumer. An holistic picture must be created, one that encompasses all the possible mediations between consumer and supplier.

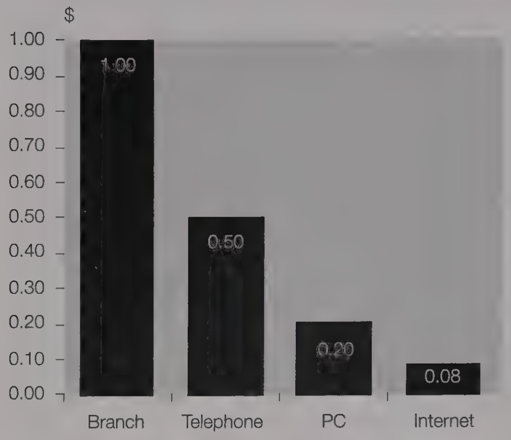
From a single location to multiple points of access

The digital world means that consumers will no longer have to come to you, you will have to go to them. The mountain must go to Mohammed! It is far too easy for consumers to not choose what is being offered to them, for any company to rest on its laurels. Coca Cola has said that it wants to have its products always within the consumers reach – that it will go to where and when the consumer wants a drink and be there to satisfy the need.

The products and services of successful companies will increasingly have to be available at the 'moments when we might'. Many different channels to market will have to be opened up – each one attempting to cover a moment when a consumer might want to buy. This means not having a 'channel to market' mindset, but thinking about 'points of access' that allows consumers to grasp your products and services on their terms and at their times.

This 'be everywhere' strategy seems to encourage a process of channel cannibalisation – a new channel will eat into the revenue of existing channels. All that is happening is that Peter is being robbed to pay Paul. In the digital world there is no such thing as a single universal channel that all consumers will plug into and use – fragmentation means a diversity of channels. The same consumer may use a different channel at each stage of their decision-making process, as well as at different times, place and contexts. Focusing on

Figure 5.7 The cost of a banking transaction conducted via different channels



Source: Frost and Sullivan

cannibalisation puts the emphasis on the individual channels and how they compete. This misses the point about how channels can work together to reinforce brands, facilitate customer acquisition and retention, and ultimately drive sales.

Much of the talk about on-line channels in the retail sector focuses on the cost-savings that can be made by using digital channels. The argument, one that is common across all sectors, sees digital media as a replacement or substitute for existing ways of reaching the consumer. New channel adoption is evaluated in terms of efficiency-savings and the impact on the bottom-line. Cheaper channels replace more expensive ones. The idea of closing down channels flies in the face of the logic of the digital world. What is more, the rationale of substitution is wholly concerned with increasing producer-value at the expense of consumer-value. In the digital world, the cost of acquiring and retaining customers is going to increase; there are no clever tricks to get around it.

The media will be modular

Marshall McLuhan said that the medium is the message – that particular media alter and change the nature of the messages that are being transmitted through them. The same message can be received differently by a viewer, reader or listener because they are receiving the message via the television, newspaper or radio. While it is true that, in McLuhan's sense, the medium is the message, it is also true that consumers turn to particular media for the very reason that the style and type of message differs. The different styles mesh with the moods, modes and contexts in which consumers want to receive messages.

As media platforms proliferate, so the ability to match different consumer contexts will increase. In other words, media platforms will start to specialise around specific consumer needs and contexts. Thus, from a consumer perspective, there will be an absolute separation of media platforms. Different activities – being entertained, stimulated,

Figure 5.8 The medium is the message Reading, watching and listening media

Reading

Books
Newspapers
Magazines

Listening

Recorded music
Radio

Watching

Television
Cinema
Video
Computer
Video games

Source:

informed, enlightened or comparing, planning, conversing, telling, buying or selling – could be satisfied by different media platforms, technologies and systems depending on the time, place and specific consumer context.

This is not to say that all media platforms will carry equal weight. Consumers do feel that some needs are more important that others, and thus give a priority to those needs. In this sense the media that help to satisfy the more important needs will carry more weight than those that help to satisfy lesser ones. Some consumer contexts occur more frequently that others. Everyday life is full of repetition and, as such, many people require the same thing, at the same time and in the same place, again and again and again. But, in the digital world it becomes more and more difficult to focus only on 'mainstream' needs and contexts. If the consumer's attention is lost on one occasion, it could easily be lost forever – this can no longer be afforded/risked.

The critical task is to create links and synergies between the same content that is accessible on a wide variety of access platforms. It is by making links, and engaging in cross-promotions, that the platform fragmentation inherent in the process of convergence and divergence can be combated. The process of re-integration around a common brand and content style can start. As consumers' attention strays from where it has traditionally been, the task is not to attempt to win it back – for this is a bit like King Canute trying to turn back the tide! Instead, companies should aim to follow the consumer wherever they go – follow them through the myriad of times, places and contexts that they pass through and the needs they desire to have satisfied. Rather than conclude that consumers are becoming more fickle in their behaviour, we should view them as experimenting and exploring with their new-found freedom and mobility. For the first time, thanks to digital technology, companies are able to follow and keep up with consumers.

Mistakes will be made if the drive and logic of the new technology is imposed on consumers, as computers are digital and people are analogue.

5.2 Four dimensional media

Throughout Media Futures 1999, reference is made to the idea that the media are going to be increasingly defined; not only in terms of the audience they have and the content that they distribute, but also the interactivity that they engender, and how each and all of these relate to the passage of time. This can be people in virtual communities interacting with each other, the onset of Near-Video-On-Demand through digital television, or the diversity of content available on the Internet.

It is important to understand how each of these four basic elements – audience, content, interactivity and time – relate to each other and what they mean to the media as a whole. While discussion about these relationships is

Figure 5.9 The four dimensions of the media

	Dimension	Media concept	Scale
First dimension	Height	Audience	Mass to niche
Second dimension	Width	Content	Broad to narrow
Third dimension	Depth	Activity	Reactive to proactive
Fourth dimension	Time	Time	Durable to perishable

Source: The Henley Centre, Media Futures 1999

as old as the media itself, the development of new digital interactive media changes the terms of reference and requires a new set of concepts. The Henley Centre takes the four elements of the media – audience, content, activity and time – as the four dimensions that define the existence of the media.

Two-dimensional media

Traditionally, the media have been understood across two dimensions. Media have 'height', that is, an audience that can range from mass to niche. Media also have 'width' – they deliver content that can range from the broad to the narrow. It is absolutely impossible to talk about height without reference to width, or width without reference to height. This is because there is no such thing as a one-dimensional medium.

The media will always distribute particular content to a specific audience. The size of the audience depends on the nature of the content. It is also the case that every media and content-owner will try to maximise their height within the limits and constraints created by the width of their content. Needless to say, bigger audience will always provide increased revenue in terms of advertising, subscriptions or both.

Confusion often occurs because it is assumed that a particular medium, eg, newspapers, radio, television or cinema, is particularly mass or niche in audience terms and broad or narrow in content terms. Every media is capable of every possible combination of height and width. Thus, the radio can deliver a large audience with Chris Tarrant's *Breakfast Show*, or it can deliver a small audience with Libby Purvis' *Midweek* on Radio Four. Likewise, television can deliver a huge audience with *Coronation Street* and *EastEnders* or a smaller audience with programs like *Blue Peter* or the *Sky at Night.*

One can turn this round and say that early in the morning there is a large audience to be reached by Chris Tarrant, whereas after 9am, Libby Purvis' ability to reach people is severely restricted as people leave home and arrive at work. The same applies to the audiences available for daytime and afternoon television as against prime time. Different media are better at delivering bigger audiences than others, but this is not universally true – no medium is completely mass and broad and another niche and narrow. In this respect, it is totally wrong to view audience and content as separate entities or opposites, they are entwined together and inseparable. It is the distribution systems that tend to be able to deliver bigger or smaller audiences – but only in general terms.

Adding a third dimension

With the development of interactive digital media a third dimension – depth – has been added to the media repertoire. The terms that have been used to describe the depth of media – active, passive, and interactive – have always led to confusion and disagreement. It is first worth trying to clarify the terms.

The terms active and passive have been applied to the ways that audiences consume media. The word active has connotations of energy, engagement and action. Passive is the opposite – inert, submissive, being acted upon. These terms never really captured the relationship that an audience has with content and different types of media. Much has been written that refutes the passive nature of media consumption. Consumers do not just absorb content in a submissive fashion, showing no resistance to the dominating messages that are being sent to them.

People engage with content and its meaning, and so construct their own understandings. There is energy and engagement in the consumption of media; even when people are slumped in front of the TV after a hard day's work they are not completely inert. That said, the arrival of digital media changes the terms of reference – they make the old passive/active debate seem stale and out of touch. New descriptions are needed that are not born of a time when the media were all surfaces and no depth, and it was with those surfaces that the consumers had to engage.

Now that the media are '3D', it is more accurate to talk of 'reactive' and 'proactive' media. At the heart of these descriptions is the idea that whoever holds the initiative in creating or controlling the media environment, defines the notion of media depth. The 'who' can either be the consumer or it can be the content supplier. The idea that some media are reactive suggests that the audience responds to what they see, read, or hear, and that they change some mood, attitude, belief or behaviour because of it. It is the content or the content-owner that holds the initiative. They control the context, order and direction of consumption.

When media are proactive, the audience has the initiative; thus, consumers are in control of the situation. The consumer is the originator of the relationship – it is they who hold the power. Interactive media can be seen as 'reciprocally active': two or more people act upon and influence each other – there is a dialogue and discussion. With interactive media, proactivity and reactivity are combined as action and responses mutually interact. In this way, interactive media are in fact communications media – facilitating exchange and change.

The 'lean back' nature of television has its own limited form of proaction when consumers channel hop. But, this is a proactive behaviour that is driven by boredom and disinterest. People flip from channel to channel looking for something that they can react to. The Internet, which has been characterised as a 'lean forward' media is made up of incessant clicks and jumps and hops. But, interest and curiosity drive this form of surfing.

We can think about these two experiences as a trip through a museum or gallery. With television, it is the exhibits in the room that hold my attention – what they have to say, what they look like. With the Internet, my attention is always drawn to what lies in the next room – each room merely raises my interest and curiosity about the next.

It should not be assumed that all users' experience of the Internet is proactive. Some transactional Web sites, particularly those geared toward impulse purchases, rely on provoking a reaction in the consumer. This is particularly true for banner ads on the Internet – they attempt to elicit a 'click' from the surfer.

Time – the fourth dimension

Time has always been a factor in the use and value of the media. For example, the use of 'windowing' strategies in the motion picture business, repeats on television and live broadcasts on the radio. 'Windowing' is crucial as a powerful economic force for keeping media profitably divergent in content and delivery. Windowing opportunities occur when the same product is launched in different markets at different times. The daily newspaper is completely defined by its relationship to time – that is how its value to the consumer is determined – nobody will buy yesterday's newspapers. Television and radio schedules structure and order time into discreet parts – daytime to prime time. What is different now is that the control of time has become more obvious through the development of interactive media – Near-Video-On-Demand for instance. Rather than the media or content-owner shaping the temporal dimension, it is increasingly the consumer.

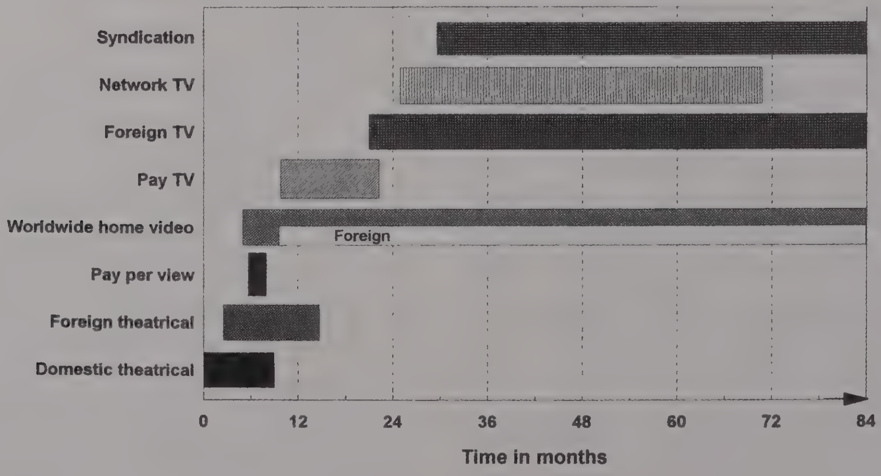
Some commentators in the broadcast media industry argue that the schedule is on its last legs, as people increasingly prefer to watch media around their own timetable. The threat of Full-Video-On-Demand and the arrival of Near-Video-On-Demand and shufflecast programming (BBC Choice for instance), where programmes are repeated at discreet intervals to allow people who miss them the first time to catch them the second time, are seen to herald the end of rigidly scheduled television. Schedules are characterised by their stability and non-variance. They are a stable point of reference in an otherwise changing world – the Nine o'clock News is always at nine for example. The fact that the Ten o'clock News will no longer be at ten is a good example of the period of change that the media are going through.

The important thing that marks out time as a media dimension is that the other three dimensions are no longer just static, they are in motion and undergoing change. Media audiences and content are no longer only made valuable by their durability, but also by their perishability – the fact that they decay and/or change over time. The fact that content is perishable used to kill its value, now it can increase it.

Money for old rope

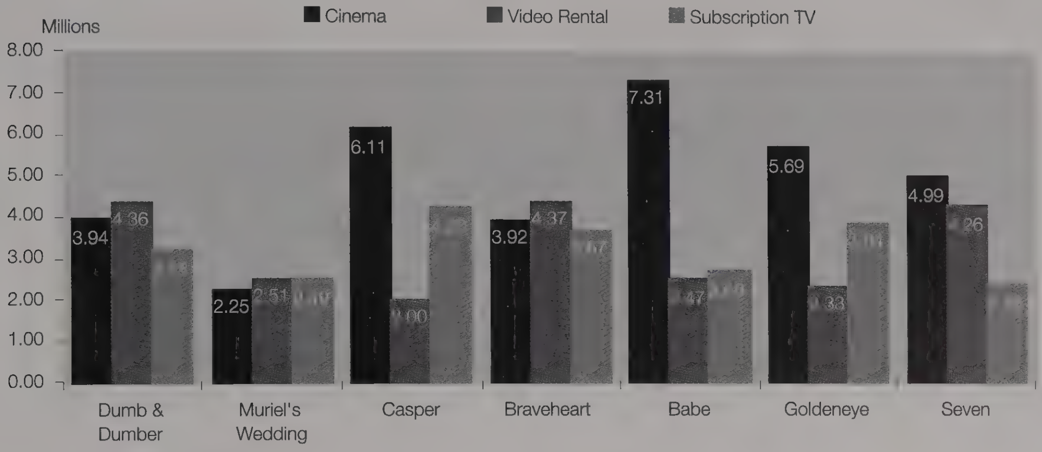
Time works on media height (audience) through the use of windowing strategies – the accumulation of a different audience over time. In the movies, Hollywood has used other media to increase the size of the audience for a film, and thus the revenue over time. They start by showing a film in the cinema, then on aeroplanes, then video rental, and then on Pay-per-view television,

Figure 5.10 The Hollywood view of windows Film market windows from release date, circa 1996



Source: 'Entertainment Industry Economics', H C Vogel 1998

Figure 5.11 Audiences across windows Numbers of people viewing films across the windows



Source: The Henley Centre, Media Futures 1999

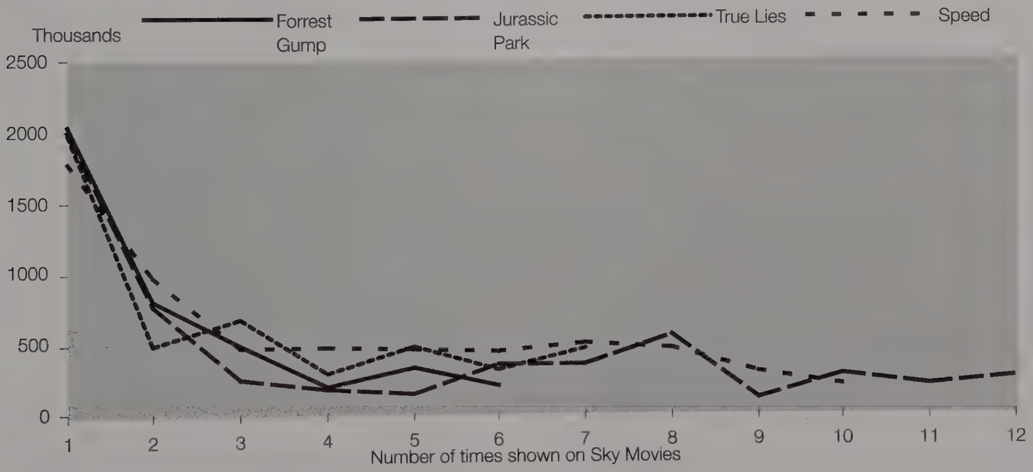
subscription television, video sell-through and finally free-to-air television.

The hierarchy of windows represents, in descending order, the revenue-earning potential of each medium. A single movie is made much more durable and its revenue potential increased as new audiences see it on each of these media. Content is given fresh wind by ending its life early on one medium and resurrecting it on another. The content is decoupled from a single distribution system – distribution systems are made perishable in order that the content can be made durable.

On terrestrial television, major soap operas have had additional windows opened-up for them, for example, the Sunday *EastEnders* omnibus. BBC Choice and Capital Gold exist for the sole purpose of making perishable content durable.

On the Internet, the use of time to drive value is becoming increasingly important. Stock prices have different time windows – ranging

Figure 5.12 The decay rate of movie audiences on Sky Movies



Source: The Henley Centre, Media Futures 1999; BARB from real-time pricing, subscription only, to free quote with an hour's delay (and a banner advert). This strategy builds on the decay-rate in the value of information that is only worth something because of its immediacy. Like radiation, information has a half-life – its value decreases over time. Thus, reducing the price to the consumer of the information allows new price-points of entry to be found. Consumers will trade-off being first against paying less.

In the multitude of interactive television trials that took place in the early 1990s, the operators of the trials reported a similar set of findings concerning the uptake of video-on-demand services. They found that the fact that a particular movie or programme was always available to the consumer meant that they often deferred purchase indefinitely. The audiences for blockbuster films were not as high as was originally envisioned because people had no incentive to watch.

The operators experimented by making what was completely durable content (it was accessible twenty-four hours a day, seven days a week) perishable by giving it a definite life-span on the system. When consumers were told that they only had one more week to see a film it created a 'last chance' rush that increased the viewing audience. Thus, making content highly perishable on a single medium can also increase the height of the audience, and therefore potential revenue.

New life can be added to durable content by giving it a perishable wrapper. Programmes like *Auntie's Bloomers* or *Live and Kicking* interpose live and new content between more stable and durable programming – the time honoured Hanna Barbera cartoon or clips from the BBC archive. The mix of perishable and durable allows content to be reused and re-packaged across different environments. On the Internet, creating new content is a costly and time-consuming business. Users expect sites to be maintained regularly and content that was thought to be durable becomes perishable incredibly quickly. Understanding how to maintain the durability of content in this environment is absolutely critical.

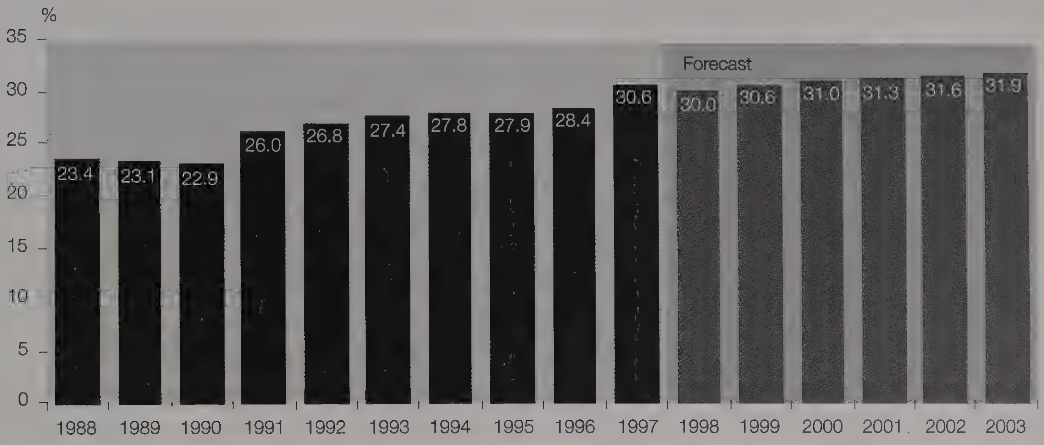
The development of communities on the Internet is one way that the problem of highly perishable on-line content can be solved. Through the interactions of the people themselves content is created – content which is highly perishable and constantly changing. This provides incentives for people to return to a site, as they want to keep up and participate. The role of content-owners changes from one that is about engaging the audience to one that is about creating an environment in which content creation by the users can flourish. The content is perishable, but the wrapper or environment is highly durable.

Individualisation of the media

It is important to underscore that the trends outlined here are not about a shift from mass audiences and broad content towards niche audiences and narrow content. The changes in the media environment concern the addition of a new dimension to the media. Depth changes the locus of control – it allows the consumer to take the initiative and hold the reins. This alters the status quo in the other three dimensions. The use of time as a way to segment markets and to add new value to existing content becomes essential.

But, the key trend is the development of proactive and digital technology. The fact that the power to make choices and initiate relationships is shifting to audiences and

Figure 5.13 Choice media increase their share of media time % of media time



Source: The Henley Centre, COMMET model

individuals, is altering the way that time is used in the media and the way that audiences are constituted. A collective 'audience' is, in many ways, an impossibility as proactive technologies allow people to make their own choices about content and the time of consumption – every member of the audience could, and probable will, choose completely different things. Proactive media allow consumers to pick the content that is in tune with their own tastes and interests and then to consume it at a time that is in tune with their timetable. Thus, it is difficult to talk about audiences in the traditional way if people are choosing to watch the same programme at completely different times, let alone watching completely different programmes.

Proactive media transfer the previously established supply-side functions of scheduler and editor over to the consumer. The consumer can potentially choose exactly what they want to watch when they want to watch it. The jobs of bundling different bits of content together (an editor who commissions articles or programmes around themes, issues and topics), and then looking at what order they should be received by the consumer (schedulers who organise the content around particular times), could be done by the consumer with the help of new technology.

Much has been made of the concepts of the *Daily Me* – a consumer-created newspaper and an Electronic Programme Guide smart enough to develop user-centred TV schedules. The huge diversity of content that exists in the book sector, magazine sector or music industry, let alone the World Wide Web, would become the norm across all media. Obscure tastes would be catered for, and fragmentation would continue at a rapid pace.

Concentration of the media

Although consumers like to access the specific content that interests them at the times that suit them, there is also a counter-trend. A few media products are increasingly capturing a disproportionate amount of audience. On the one hand, consumers are expressing their individuality, tastes and preferences, but on the other, they seem to fall in line and follow the herd. For example, there were over 120,000 books published in the UK in 1997, yet the No.1 bestseller can pull in 16% of the revenues of the entire book-publishing sector.

In the video games industry, 1,000 games can be in retail, yet the top 40 titles will account for 60% of revenues for the industry. Likewise, on the Internet, only two Web sites account for 50% of the advertising revenue, despite there being 140 million sites in total. A few super-popular products are gaining a greater share of the revenue pie.

Consumers, like birds of a feather, are flocking together. For most people, the jobs of scheduler and editor are just too time-consuming to take on. Consumers are already feeling very time squeezed and, increasingly, they have to cope with too many choices in their lives – ones that carry greater consequences. In some instances they prefer to 'outsource' these jobs back to media owners or content aggregators, and so save themselves time. But, unlike in the past when consumers had no choice over the diet of edited and scheduled content, now they do have a choice.

Figure 5.14 Birds of a feather flock together

No. I best-selling book accounts for 16% of revenues

Top 2 web sites account for 50% of revenues

Top 20 rented videos account for 45% of revenues

Top 20 films account for 60% of revenues

Top 40 video games account for 60% of revenues

Source: The Henley Centre, COMMET model

Consumers use the trust they have in established brands to help them to navigate the media, which can so easily be seen as clutter. This trust can be invested in the brands of media companies, channels, bands, programmes or titles, or actors and stars. The BBC is seen as a mark of quality, something that will act as shorthand for 'worth watching or hearing'. At the other extreme, some people will use a favourite actor or actress to help them to make a decision to consume. The fact that George Clooney is so popular in ER means that he can take that popularity with him into other areas. Stars act as beacons that help to manage choice. The use of content franchising, which turns content into a brand, also helps consumers to manage choice – the Power Rangers use this to take particular audiences across different media and sectors – television, films, toys, clothes even food.

Media brands are made more important due to their role as the locus of 'imagined communities' of consumers. While this point is examined fully in the chapter on 'Marketing and Communities' it is important to touch on it here. People defer to big media brands because they give them a sense of social identity – a sense that they are part of something bigger, an identifiable social whole. In this way, the media provide social glue and a sense of belonging – a function of the media that balances out the trend towards greater individualisation and fragmentation of the media.

'My media' and 'our media' co-exist

Giving the media four dimensions polarises audiences and content, and also makes time a more important source of value. These trends are not only driven by new technology, but by the wider social trend towards consumers gaining a more powerful position in the market place. It means that the media are being pulled in two directions in terms of media height and width. The directions are set by the degree of desire that consumers have to involve themselves in the process of choosing which media to consume. In some instances, they will want complete control – 'My Media', in others they will delegate the control to somebody else – 'Our Media'.

5.3 Media overlap

This section examines the impact of the relatively low growth in the time and money consumers spend on the media, and the increase in the number of companies and media products that need these scarce resources to survive and grow. To explore this issue, we use an environmental metaphor – imagining the various corporate players in the media economy as living organisms, creatures who have to compete against each other for the limited resources of time and money that consumers have to spend. The use of metaphor to explain the changes and continuities in the media allows us to approach the issues in a creative and original way.

Figure 5.15 The things in the media environment

Animals

Channel 4
Capital
EMAP
Guardian Media Group
Yahoo!

Resources

Consumers' time
Consumers' money

Populations

Television
Radio
Magazines
Newspaper
Web

Forms of sustenance

Revenue streams
Cover price
Subscriptions
Advertising
New products

Source: The Henley Centre, Media Futures 1999

In the first chapter of Media Futures 1999, 'The Attention Economy', we introduce The Henley Centre's COMMET model of the consumer media economy. COMMET measures and forecasts the time and money that consumers spend across the full spectrum of media available to them. In this sense, COMMET paints a holistic picture of the consumer media environment and measures the resources (consumers' time and money) that allow this environment to exist. By understanding the consumer media market as an environment in the ecological sense, much light can be shed on market trends and developments.

Economics and ecology share a great deal in common. Both are concerned with the utilisation of scarce resources by populations. Both examine the distribution of those scarce resources across populations. Both attempt to map and model the flow and circulation of resources in the environment as a whole. Thinking about the media economy with an environmental mindset, enables a deeper understanding of the impact of limited resources on the companies that 'inhabit' the media environment. It enables an analysis of the impact of increasing competition in the media environment, as well as highlighting some potential strategies for survival as resources get scarcer.

One of the strengths of an ecological model over an economic one is that ecological models have a much stronger understanding of the processes of change. Evolution and development are key concepts in understanding the environment, but they are less important in economics. The way that animals and populations adapt to changing circumstances and changes in the availability of resources is of critical interest if a picture of the future is to be created.

The resources of the environment – consumers' time and money

The resources of the media environment are consumers' time and money. Money must be measured because it is the ultimate measure of value in the economy – both consumers and advertisers spend money on the media, which ends up in the hands of media owners.

Time must be measured because it is only through the attention that consumers pay to the media that media owners get to sell advertising to advertisers for money.

In this respect, audiences are resources for media companies because they pay for media and they are resources because their attention is sold to advertisers. On the other hand, media companies have to provide content that consumers wish to pay attention to and 'buy'). Without compelling content, media owners (can collect nothing, as they will have no consumers to buy their product or to sell to advertisers.

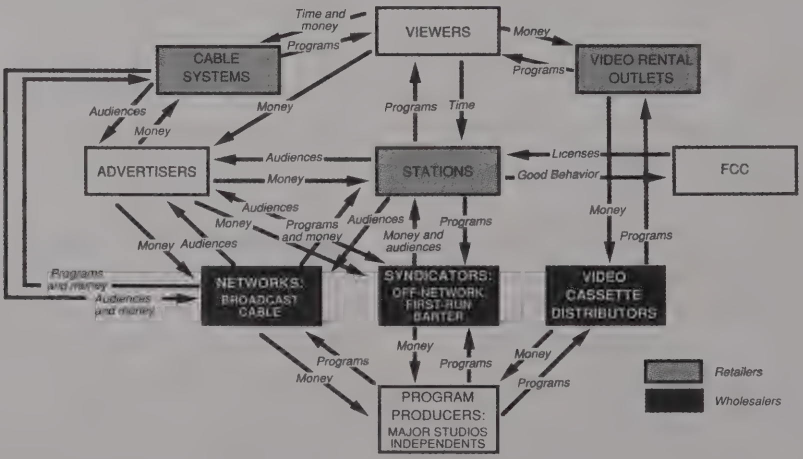
The resources that consumers have – time and money – are spent on a wide variety of things. Most of them are not media-related. They are not just there for the taking – the idea that there are 'low hanging fruit' to be 'picked off' is not helpful in this model. Instead, consumers have to be tracked down, wooed or seduced. The business of realising the resources that consumers have in their budgets is, like all matters of survival, hard work. Especially, if those resources are also the means of survival for others.

The population of the environment – media types and companies

For the model to work, we have to imagine media companies acting and behaving like living creatures in the environment. Some of these creatures are more alike than others; the ones that share common characteristics make up populations. These populations are equivalent to the different types of media.

Every environment has populations – the living things that inhabit it. Populations of creatures consume the resources available to them in order to survive and grow. The environment is made up of different populations of creatures. The rain forest of South America or the great plains of Africa do not provide a habitat for only one type of life, but many different types. In the same way, the media environment is made up of different populations or media types – television, radio, newspapers, magazines, cinema, etc.

Figure 5.16 The flow of resources in the video economy Time and money for programs



Source: 'Video Economics', Bruce M Owen & Steven S Wildman

Each population is made up of 'media animals'. The media animals are akin to media firms and companies. They are the BBCs, Carltons, EMAPs, News Internationals, Capitals, EMIs or Warner Brothers of this world. Across all populations, and in every animal, there is a dominant gene that drives them forward and gives them a sense of imperative. This gene requires growth and promotes survival.

Forms of sustenance - revenue streams and media products

There are a limited number of ways that the media can collect the time and money of consumers. But, even that limited number of ways is still higher than other non-media sectors have to sustain themselves with. A media company has far greater flexibility than an FMCG company that can only be paid in money and not in time. In terms of money, consumers can be asked to pay for:

- *Cover price* (newspapers, books, magazines, CDs, video sell-through etc). Consumers pay every time they wish to consume a media product. They then get to keep the product to do with as they wish in the future.

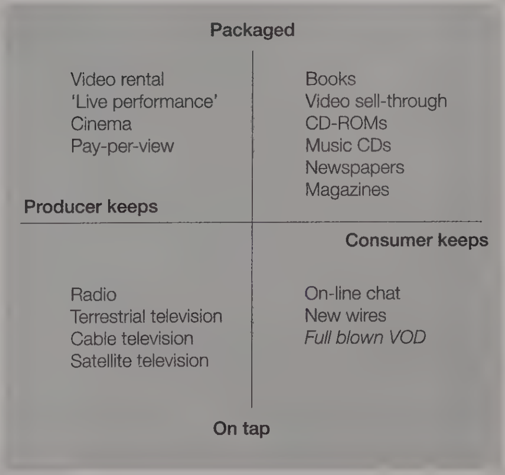
- *Subscription (1)* (magazines) Consumers pay in advance for a bundle of media products which will arrive in the future. They then get to keep the product to do with as they wish in the future. This type of payment for content is exemplified in the media by the development of consumer news wires or chat environments on the Internet.

- *Subscription (2)* (multi-channel television, TV licence fee) Consumers forward pay for a bundle of media products which will arrive in the future, but they do not get to keep the product unless they video-tape them at home – something that is frowned upon, but tolerated.

- *Pay-Per-View* (cinema admissions, near-video-on-demand television, video rental) Consumers pay every time they wish to consume a media product, but do not get to keep the product to do with as they wish in the future.

Consumers part with their money for media products that they either get in a package that they can keep or a package that they cannot keep, and for products that are available to be consumed immediately or that are delivered over time.

Figure 5.17 How consumers pay for the media



Source: The Henley Centre, Media Futures 19

Advertising is one of the most important sources of sustenance (revenue) for the media. As the time that consumers spend consuming the media – the attention that they pay – can be sold to advertisers it is critical that consumers are attracted to the media.

Media companies, the creatures who live in the environment, can improve their access to resources by increasing the number of products that they have in the market. This increases the chances of a consumer paying some attention to one of their products. But, this strategy has a limit – the energy (money) that media companies have to expend in producing new products. But the trend over recent years, driven particularly by new digital technology, is one of reducing production costs. For instance, in magazine publishing digitisation has reduced the cost of content creation through desktop publishing, and also made it more cost-effective to produce shorter print runs.

Traditionally, the major barrier to drawing on all forms of payment are the boundaries that are erected by the specific qualities of particular systems of distribution – print, broadcast (radio and television) or books for example. Each system of payment is more or less suited to different media. There are very strong synergies between distribution platforms and particular ways of extracting revenue from consumers.

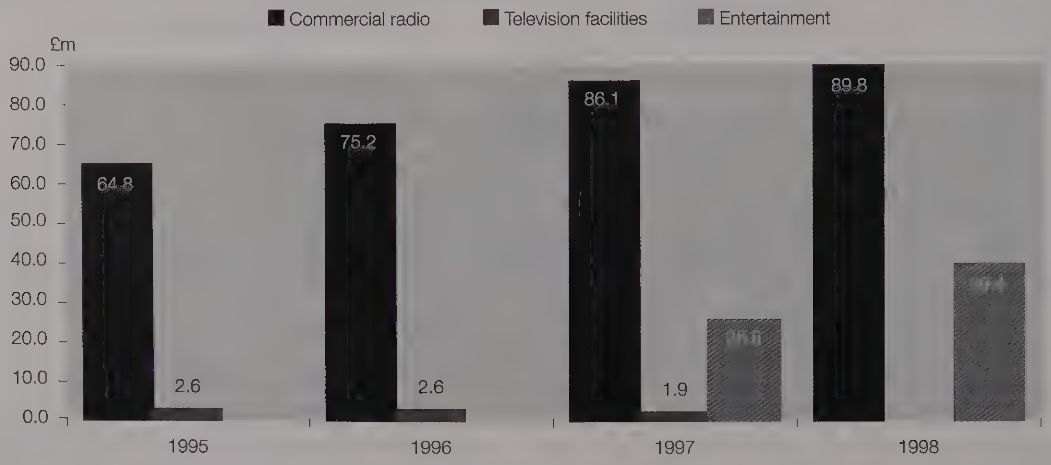
As has been discussed in the previous section, digitisation allows content to be decoupled from its distribution systems at a greatly reduced cost. This means that is becomes far easier for media owners to transport their content into new media markets. Thus, new windows for content can be opened up and so new forms of sustenance (revenue streams) can be exploited.

Being a jack of all trades or a master of one

In the living world, two broad strategies have been adopted by animals towards the 'forms of sustenance' that they use. The choices that animals make as to what forms of sustenance to pursue set their evolutionary agenda and give them certain characteristics. The two strategies that can be adopted are to be a specialist or a generalist.

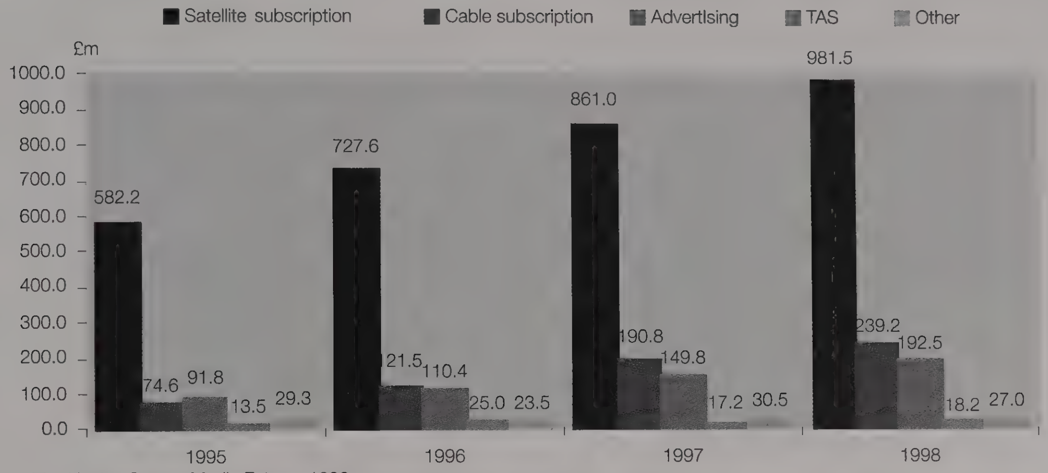
Radio is a particular good example of the specialist strategy of resource collection. The commercial radio population is a specialist population as it draws on only one form of sustenance – advertising. Radio could be likened to the Koala bear! The Koala bear depends for all its sustenance on the Eucalyptus tree, it has no other method of staying alive apart from Eucalyptus leaves. This means that if anything happens to the Eucalyptus tree – eg, there is a bad year and

Figure 5.18 The sources of revenue collected by Capital Plc



Source: The Henley Centre, Media Futures 1999

Figure 5.19 The sources of revenue collected by BSkyB



Source: The Henley Centre, Media Futures 1999

very few new trees start to grow – this seriously impacts on the Koala bear population.

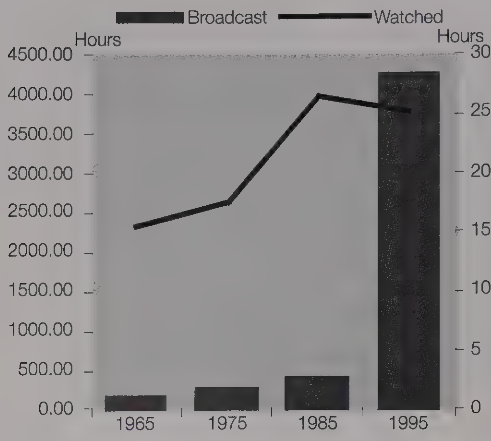
Over the years this dependency on only one form of sustenance has forced the Koala to become highly efficient at collecting and surviving on Eucalyptus. Its specialisation has increased its dependency, but also its efficiency. Anteaters would be another example. There are countless others where species have evolved highly specialised and individualised skills and characteristics in order to maximise their ability to gather resources.

Cable and satellite television, on the other hand, can be described as a generalist as it draws on many different forms of sustenance in order to survive. BSkyB, for instance, is 'fed' by advertising, subscriptions and PPV as revenue streams. In the animal kingdom, generalist equivalents would be bears or primates. Chimpanzees, for instance, feed on hundreds of different species – being omnivores they eat plants, insects and animals. When a particular source of food dries up it means that they can turn to another. Chimps have remarkable flexibility and dexterity, being able to live off many different sources. The flexibility that they have allows them to spread risk and gives them independence. But, it also means that they are less efficient consumers of resources – they are jacks of all trades and masters of none.

Television provides an interesting example of population evolution and a transition from a sector defined by specialism towards one marked by generalism. With the arrival of commercial television in the 1950s, the resource that sustained the sector (population in environmental terms) was advertising – the attention that consumers paid to commercial television. The growth in the industry came from increasing the amounts of time spent watching television as a whole and refining the skills associated with valuing and selling particular types of audience.

As the growth in the amount of time that consumers devoted to television started to slow and then plateau in the 1980s, it became more important to compete with the BBC for consumers' attention. The battle for time was all-important if growth was to be achieved, in addition it became increasingly important to squeeze more and more value out of the time

Figure 5.20 Time spent watching television versus the total number of hours broadcast 1965,1975,1985 and 1995



Source: The Henley Centre, Media Futures 1999

available. This was the behaviour of a specialist.

With the ceiling on viewing time reached, the only other avenue to create growth was through directly charging the consumer for viewing. The pay television services from BSkyB operate on exactly this basis – they have opened up additional forms of sustenance, ones that show greater long-term potential for growth. The availability of new television stations on cable and satellite distribution systems not only feed off consumers' money, but also continue to squeeze the ITV companies by attracting the attention of greater and greater numbers of consumers.

The ITV companies have responded by consolidating through merger and acquisition as well as trying to find new ways of generating revenue outside of the broadcast television sector. This has changed their evolutionary path from specialist to generalist. The entry of Carlton and Granada into the pay television market via ONdigital shows this process of evolution.

Media overlap - competition between populations for scarce resources

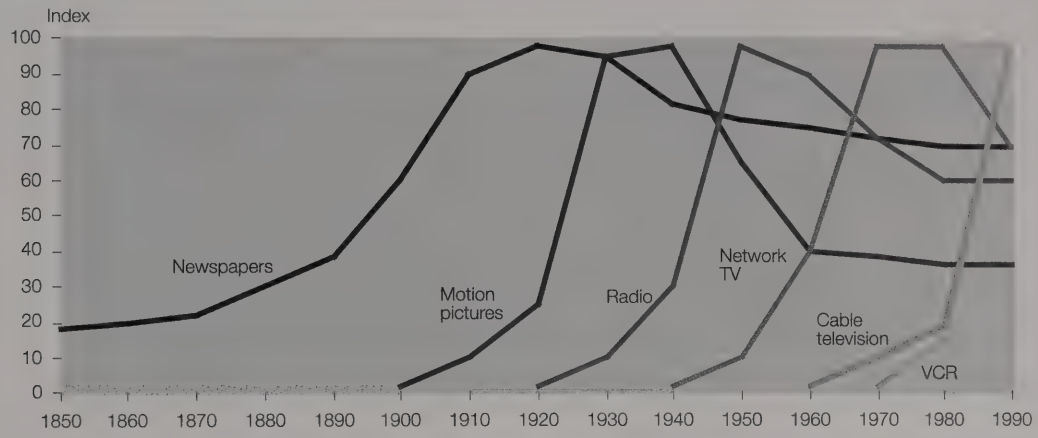
Media overlap is defined as the extent to which different media companies (the living things in the environment) and populations (the media types) compete for the same resources. It has always been recognised that there is some overlap in the media sector – that advertisers only have so much money to spend on advertising and, as such, a £1 spent on one medium is a £1 not spent on another.

It is also the case that different media reach different quantities and qualities of audiences and, as such, companies in different populations do not directly compete with each other. Thus, the media environment was perceived to be made up of relatively discrete populations competing for a discrete set of resources – competition was confined to an intra-population level and not an inter-population level.

Media overlap is caused by the scarcity of resources. This scarcity is caused by consumers reducing the amount of time and money that they are spending on the media or by population growth: scarcity means that existing resources have to be spread around a greater number of competitor companies. In addition, whole new populations (a new media technology like the Internet, for instance) emerge and lead to a shakeout of the way that resources are allocated.

If consumers start to reduce the resources that they allocate to one area, then the firms affected will start to look for other resources to survive and grow. If population density increases this also creates a threat to existing revenue streams. Either way, the danger is that competitors appropriate the available resources.

Figure 5.21 The competitive displacement of media in the US 1850 to1990 (100= maximum market penetration)



Source: De Fleur & Ball-Rokeach, Feldman, Neuman

Most commonly, media overlap leads to a partial erosion of resources, known as competitive displacement. The most extreme outcome of media overlap is a total appropriation of resources – known as competitive exclusion. This is incredibly rare. Competitive displacement occurred when the television – a new media at the time – started to appropriate resources from the cinema in 1950s and 1960s. This caused industry re-structuring and the aggressive acquisition of new revenue streams such as moving into international markets.

At the heart of media overlap is the threat of substitution. Increasingly, the media choices available to consumers means that they can potentially have their wants and needs gratified elsewhere – ie, shift their time and money. This is what happened in the US as new media entered the marketplace – consumers' allocated their resources to a new media on which they spent their time and money. As consumers start to re-allocate how they spend their time, so advertisers have to find new ways to reach them. Thus, as the number of media alternative increases, population density increases and so does the threat of substitution. Existing players have to work even harder to keep the resources to which they have become accustomed.

What does COMMET tell us?

The Henley Centre's COMMET model of the UK consumer media economy tells us two very stark facts.

- On the supply-side, population density is increasing – there is a Niagara of supply. Across all media sectors there has been huge growth in content over the last ten years. The amount of content available to consumers is increasing and so resources are being spread more thinly.

- Digital technologies are lowering cost-based barriers to entry in many media markets, creating a proliferation of new titles and new entrants. This is particularly true with the entrance of new non-media companies into the media sector – for example, supermarkets with their customer magazines.

- Digital technologies are also increasing the capacity of existing platforms – for instance, video and audio compression

Figure 5.22 Increase in the supply of content in the magazine, book, TV, radio, music and Web and other 'populations'

	1988/89	1997
TV channels	4	60+
Magazine titles	2,042	2,438
Commercial radio channels	60	188
Cinema multiplex sites	14	118
Singles released	3,932	5,928
Albums released	8,752	18,386
CD-ROM titles	390	16,762
Web pages	0	132 million
Book titles released	56,514	100,029
National newspaper supplement titles	14	52

Source: The Henley Centre, COMMET model

techniques are increasing the number of channels that are available to consumers.

- Digital technologies are creating whole new media, such as the Internet, which are competing for consumers' time and money.

- On the demand-side, consumers allocate a remarkably consistent proportion of their time and money to the media – it remains relatively flat, there is some growth but not enough to absorb the massive increase in supply. Consumer demand, in contrast to the Niagara of supply, would fit in a pint glass.

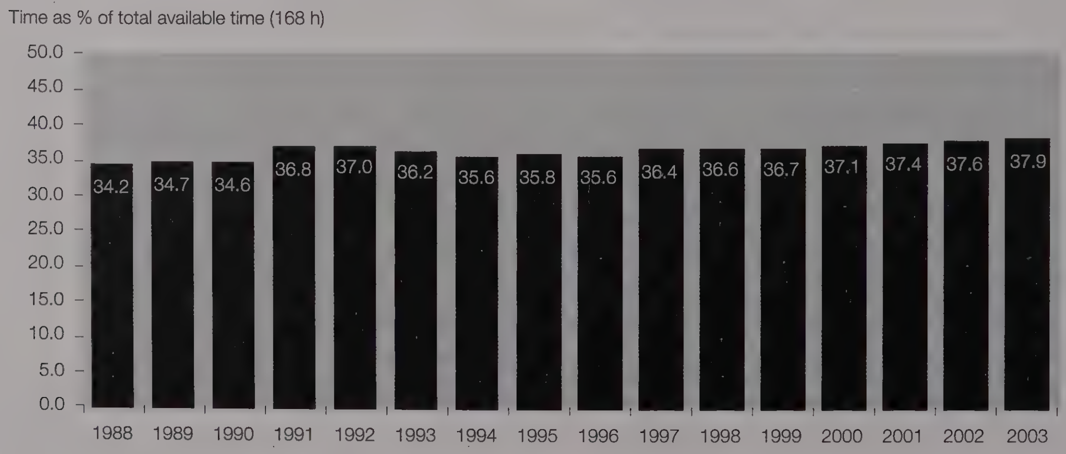
- Consumers have consistently been spending roughly 30% of their total available time on the media over the last ten years.

- Consumers have consistently been spending roughly 4% of their personal disposable expenditure on the media over the last ten years.

There is essentially no extra time available from consumers, the only real source of growth for the media will be from increases in the money that consumers spend. The stability in the proportion of time that consumers spend on the media overall is also reflected in the way that they spend their time on particular types of media. Data from COMMET suggest that consumers are not only suffering from information overload they are also suffering from sensory overload.

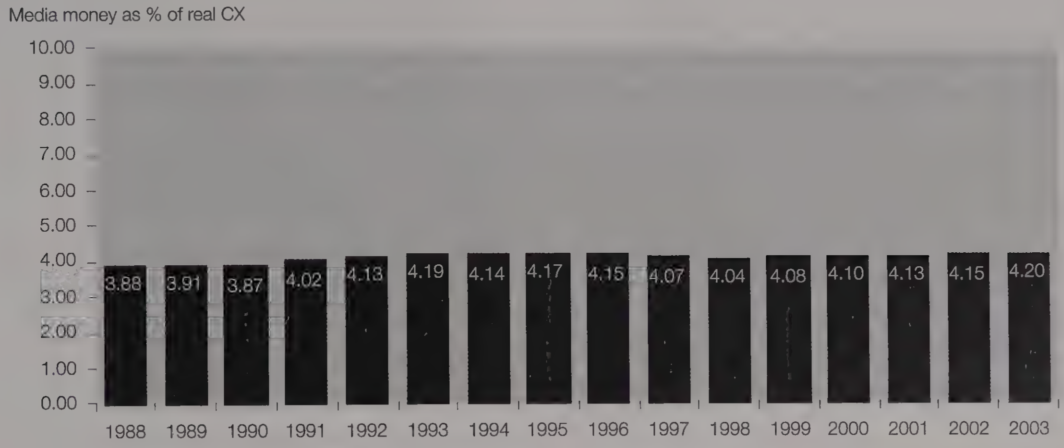
If the media are classified by their mode of consumption, watching, reading and listening, rather than by supply-side driven distribution or production-based classification systems, then it seems that the amount of time

Figure 5.23 Consumer time spent on the media



Source: The Henley Centre, COMMET model

Figure 5.24 Consumer money spent on the media



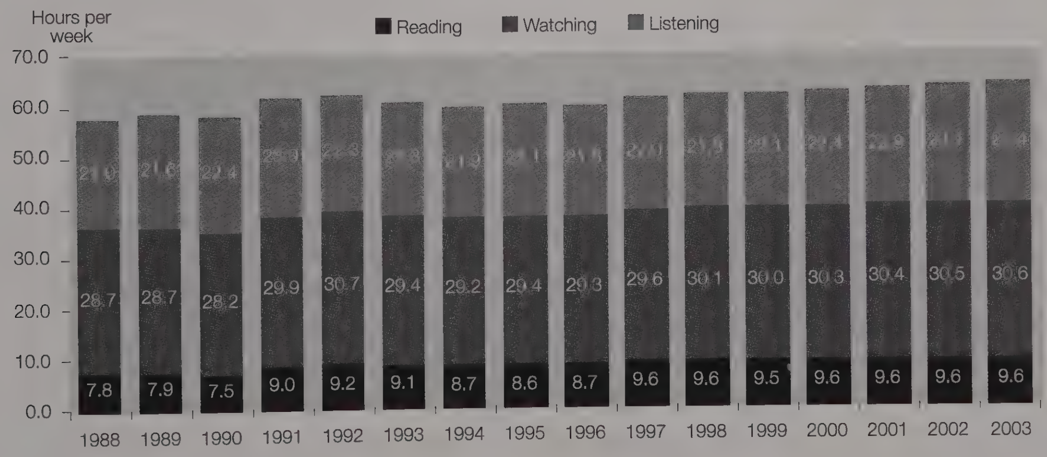
Source: The Henley Centre, COMMET model

that people spend consuming via these three modes is also stable. This would suggest that, as well as the media having an upper limit on the time allocated to them in total, there is also a limit to the total amount of reading, watching and listening that consumers can do in a week.

This approach examines media overlap from a consumer perspective and suggests that there are boundaries between the resources that consumers allocate to the media; rather than the boundaries being defined on the supply-side, they are defined on the demand-side. All the populations that fall into the watching category compete for resources against other watching media, and the same is the case for reading and listening. The Internet, which can span all three categories, creates even more competitive pressure.

This reinforces the points made in the first section of this chapter. Marshall McLuhan's statement that *"the medium is the message"* would exactly suggest that the media should be understood in terms of the modes and

Figure 5.25 Time allocated to reading, watching and listening media



Source: The Henley Centre, COMMET model

style in which they are consumed. Rather than thinking about the media and defining them from a supply-side or distribution perspective one should segment them as they are consumed. This three-part segmentation of the media (reading, listening and watching), also strengthens the point made about media divergence – that instead of the media converging into 'one box' there will be a divergence around different access technologies. The core elements of this divergence will be technologies that allow reading, watching and listening.

The combination of the points made above – that media density is increasing and consumer choice is proliferating – impact on the cost-base of media companies in a particular way. Promotion costs increase, as it becomes far more difficult for consumers to find media products among the clutter. In addition, creativity and talent increasingly recognise their own value and ask to be given a greater share of revenue – they become brands in their own right and create shortcuts for consumers so that they may manage choice.

But, it should be restated that at the same time as increasing costs, digitisation is forcing costs down. New technology has, on the whole, reduced costs, such as labour costs (the Wapping dispute involving News International in the 1980s is an example of this) or distribution costs (the price of a slot on a digital satellite transponder is considerably less that the cost of an analogue one).

Lessons from Darwin!

When Charles Darwin arrived on the Galapagos Islands, on his historic voyage, which would later provide the inspiration for his theory of evolution, he noted two things. Firstly, he saw that the Island had very limited resources, and secondly, he noted that the animal population continued to increase despite this constraint. Darwin thought this showed that limited resources do not prevent populations from growing and prospering.

Darwin found that a major premise in economic thought, that all things remain equal, was not applicable in the animal kingdom. Species changed – they adapted and evolved according to the rigours of the environment that they were living in. Thus, Darwin argued that, when resources remain constant and population density increases, specialisation occurs. The species on the Galapagos Islands had to become highly efficient users of the resources that were available.

This is an important finding with implications for the media sector. Things do not have to be doom and gloom. Companies can start the process of evolution, and change and adapt to the new media environment.

In two very important ways, however, media companies are not like members of the animal kingdom. They have the critical advantage that additional courses of action are available to them. Media companies can be in two populations simultaneously – they can be book publishers, radio stations and film companies. Media companies can also be in two environments at the same time – Capital PLC is in the media business through its radio stations, but it is also in the restaurant business – it has opened up a completely new area of business. These two characteristics enhance the evolutionary potential of media companies.

How media companies can evolve

The Henley Centre has identified four broad strategic responses that media companies can make to the 'Niagara of supply and pint glass of demand' that has been identified by the COMMET Model. These four responses can be defined as:

- Deepen relationships with customers - increase and refine specialisms
- Open up new revenue streams – shift from being a specialist to a generalist
- Enter a non-media market
- Stretch out and be a media-hybrid – become a multi-specialist

Digging deeper – refining specialisms

As Darwin found on the Galapagos Islands, refining specialisms is a completely 'natural' thing to do. Some of the ways that companies can accomplish this are described below

- **Firms can get bigger.** The late 1990s have seen media companies at the forefront of mergers and acquisitions. The media factor has been rapidly vertically, and horizontally, integrating over the last ten years. This creates economies of scale and allows economies of scope to be developed. The consolidation of the ITV franchise holders is one example, as is the increased concentration in the book publishing industry.

- **Firms can get to know their consumers better.** Most media owners have attempted to gather more detailed information about the people who consume their products. This enables them to offer greater accountability to advertisers who want to know that they are hitting the right targets. Improving the quality of the information that is held on consumers can transform the media owner from being an advertising medium into a customer gatekeeper. This would allow deeper relationships with the advertiser companies to be formed – helping with product development or segmentation strategies for example. This strategy also allows the media owner to create more detailed consumer segmentation through which new products can be launched. In the magazine market, greater and greater title specialisation is used to improve targeting but also to saturate potential markets and so erect barriers to entry. Multiple titles covering similar subject areas are launched by a single publisher who 'mops up' all the available consumer resources in that segment.

- **Firms can encourage their consumers to interact.** Creating deeper relationships with consumers can also be managed by developing ways to increase consumer involvement, identification and participation. When a firm is trying to get to know their customers better it is done in order to increase loyalty and so improve customer retention. This strategy has traditionally revolved around developing relationships between consumers and the media products and brands. Encouraging consumers to interact with each other is about creating a sustainable environment in which communities of consumers can form. This media strategy was explained and developed in the chapter called "Marketing and Communities".

Moving from specialist to generalist

The transition from specialist to generalist is far more difficult for companies in some media areas than for others. The opening up of new revenue streams is seldom done by an established firm – it is the new entrants that upset the apple cart, either by entrepreneurial guile or because they have regulation on their side. The following can be done to shift from being a specialist to a generalist.

- **Firms can take consumers' time as well as their money (or vice versa).** Through ONdigital, the ITV companies Carlton and Granada have added pay-TV to their existing advertising-based revenue streams. The logic of this strategy is that the publishers of books could start to sell advertising on particular titles as well as charge a cover price.

- **Firms can launch new products.** The launching of new products helps to spread the risk in a highly competitive market.

- **Firms can open up new windows**. The windows that can be opened up can be either geographically-based or time-based. New revenue streams can also be found by trying to sell to the global media market – taking the time and money of foreign audiences. These windows can also be time-based. The BBC, with its Flextech joint venture, has opened-up a new revenue stream by leveraging a pay television window for its archived content.

- **Firms can trade-off money against time.** The idea of 'increasing returns' is currently very popular. Increasing returns basically means that if companies sell more products they will sell more products – there is a virtuous circle that will increase growth and squeeze competitor market share. Increasing returns might be a new incarnation of the century old 'razors and blades' strategy – if you give the razors away and so increase market penetration, then money can be made on the sale of the blades that are sold separately. Netscape, by giving away their web browser technology, have improved their ability to sell their server software. Nintendo keeps control over the software that is sold for its consoles because that is where it makes the bulk of its profits – not on the sale of the hardware. In a media environment, the best example is News International's decision to reduce the cover-price of the Times. The price-cut led to an increase in circulation and so an increase in potential ad-revenue. The critical thing here is to understand the balance between time and money.

Moving into a non-media market

This strategy involves being able to stretch a media brand into a completely new and non-media related market. This is becoming more and more frequent. In the magazines sector alone:

- *Sugar* is moving into clothes - lingerie, nightwear and swimwear to be sold through Littlewoods catalogues;

- *Cosmopolitan* has developed a clothes line and a soft drink;

- *Elle* has opened a shop in Paris;

- *Hello!* produced a range of chocolates with Marks & Spencer;

- *Cigar Aficionado* has launched a set of music CDs;

- *Country Living* has an annual fair with 30-40,000 visitors.

Each of these 'stretches' is entirely in keeping with the personality of the brands. Consumers can make the leap from reading *Sugar* the magazine to wearing *Sugar* the swimwear or from reading *Cigar Aficionado* to listening to a CD full of music to complement the smoking experience.

It is not just the consumers' views that have to be taken into account. When *The Telegraph* tried to launch a package of financial services it provoked the wrath of advertisers in that sector. The publisher of *4-4-2* the football magazine recently said that they would not develop any products that directly competed with any of the products sold by their advertisers. Merchandising has for a long time been the bread and butter of the movie industry. The spin-off revenues in terms of toys, lunch boxes, watches and other goods can be huge. Many media companies are only now seriously examining this potential revenue stream.

It is the on-line environment that offers the greatest possibility for transactional revenue streams. For instance, newspapers and magazines on the Internet are embedding transactional links within book, movie or CD reviews. With one click the consumer can buy the book or ticket or CD. But then many companies are already doing this with the telephone and the printed page. For example, *The Observer* allows readers to buy the books it reviews over the telephone.

Becoming a media-hybrid – increasing concentration

Diversification is the name of this game. It means becoming a multi-market player, not being a specialist or a generalist in one market but all of them. This is the strategy of Disney, Time-Warner, Viacom, News Corporation or Seagram. These companies aim to capture consumers' time and money in every field and be everywhere. They are hoping to get the consumer to concentrate their resources on their products by operating in all the media the consumer pays attention to – books, films, television, music, etc. They control a mixed economy of media.

Being a media-hybrid means using a windowing strategy at every opportunity. At every point, a media-hybrid company should be using the value derived by a specialism in one media to drive value into another. For example, the book I publish becomes the film I make, with the theme music from a band that I have signed, becomes a television sitcom, which then becomes another book. This strategy means understanding the links

Figure 5.26 The media and non-media interests of 5 large media hybrids

	Disney	News Corp	Time Warner	Viacom	Seagram
Films	✓✓	✓	✓✓	✓✓	✓✓
Cable nets	✓✓	✖	✓✓	✓✓✓	✖
Broadcasting nets	✓	✓	✖	✖	✖
Cable systems	✖	✖	✓✓✓	✖	✖
Theme parks	✓✓	✖	✖	✓	✖
Music	✖	✖	✓	✖	✓
Publishing	✓	✓✓✓	✓	✓	✖
Video retail	✖	✖	✖	✓✓	✖
Consumer products	✓✓	✖	✖	✖	✖
TV stations	✓	✓✓✓	✖	✓	✖
Radio stations	✓	✖	✖	✖	✖
Beverages	✖	✖	✖	✖	✓✓✓
Other	✓	✓	✖	✓	✖

✖ = no interest
✓ = low interest
✓✓ = medium interest
✓✓✓ = high interest

Source: The Henley Centre, Media Futures 1999

and connections between a diverse set of components. The net result is to create strongly branded media franchises that can capture the attention of consumers across media. The development of strong content brands is something that ties with consumers' desire to find ways of managing the vast array of choices that they have.

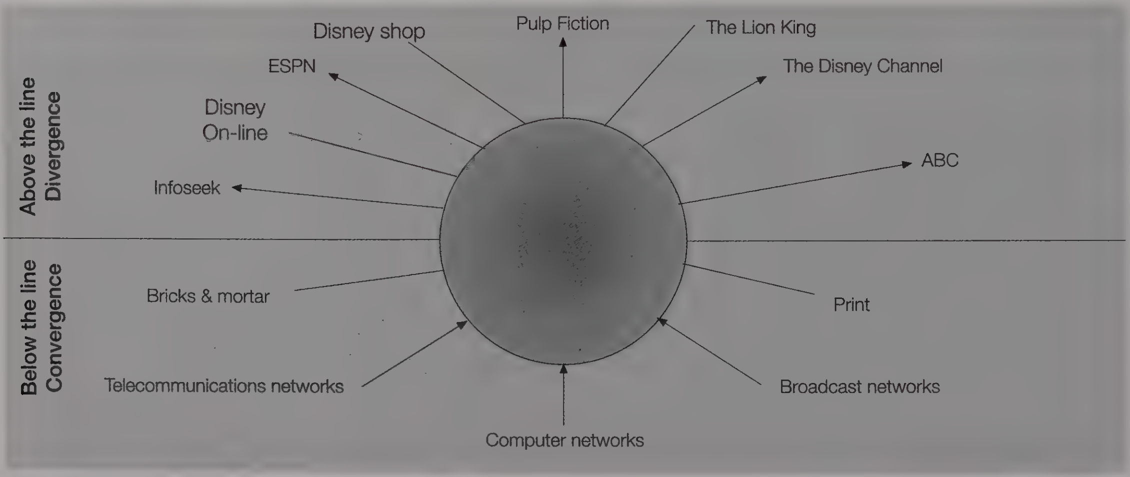
This all sounds too good to be true, and so it is. The hybrid media company has a dilemma – it has to trade-off between owning the customer's money and owning their time. This dilemma has been made particularly acute by the development of new digital media technology. On the one hand, digitisation is great for hybrid content owners, as media content becomes much more flexible. Bit's 'don't know where they came from', means that they are not tied to any particular type of packaging – print, broadcast, etc. There has been a decoupling of distribution from content.

The development of open-distribution standards also allows content to flow across networks and distribution systems – content can become totally platform agnostic. The BBC has opted for a strategy with digital television that means their content will be platform-neutral and distribution-agnostic.

On the other hand, digitisation and open systems make being a gatekeeper, through controlling distribution or proprietary standards and technology, much harder. Gatekeeping depends on limiting the supply of access and maximising control over it. A gatekeeper strategy depends on owning the customer by being their point-of-entry into the marketplace – it emphasises exclusivity rather than openness. It is this strategy that underlies the business-case for the 'one box does it all' version of convergence.

In the past, ownership of core technology might have been a partial guarantor of success, now this cannot be counted on. The baton has been passed from the gatekeeper who could lock in consumers to the brandkeeper who can attract them and then keep them. Consumers, through their use of proactive media, can increasingly find the thing that they want from a number of different places. Being a brand keeper means controlling something that is essential to the

Figure 5.27 Disney – being everywhere



Source: The Henley Centre, Media Futures 1997

consumer – a 'must have'. For example, somebody might want to watch live football on television, but they might be unwilling to pay for the right. There are other things to spend their time and money on. But a keen Manchester United supporter would feel differently – they would be prepared to pay to watch their team on TV. BskyB's power is increasingly less about owning the gateway and more about owning the brand (in this case, football).

In this first section of this chapter, it was argued that, while content format and distribution would converge, the ways that consumers access content would diverge around their different needs and contexts. This suggested that content, which is where the value lies, should be available to consumers at all the 'moments when they might' need and want it. If we apply this thinking to a media-hybrid company, we can see that this is what companies like Disney are doing.

5.4 Lateral linking

Through this chapter and through our Media Futures 1999, one of the major issues under discussion has been the breaking-up of what used to be integrated wholes into smaller and smaller parts. This might be in the world of television where audience fragmentation is being accelerated by the launching of more and more channels, or in the world of the Internet where the number of pages is doubling every 70 days.

The other side of fragmentation is segmentation – the dividing up of populations into discreet parts. It is argued that a fragmenting audience should allow greater targeting. Segmentation, which leads to this targeting, increases differentiation – the differences between targeted groups are emphasised and products and services created around these differences.

The net result of this process is that there is more of everything. Suddenly the world is full of choices and alternatives. In some ways, it is not that people have more freedom today than they have ever had before, it is that they have more choices.

Fragmentation, segmentation and specialisation are all bound up together and increased specialisation requires interdependence. As skills and knowledge become specialised or focused in a particular area, the cost becomes less skill and knowledge in other areas – there is an opportunity-cost. People need each other more and more, as we come to depend on others for the goods, services or information that, in times gone by, we would have got for ourselves.

The price of choice is independence, and with the loss of independence comes the loss of control. With specialisation comes increasing complexity – the world becomes more difficult to manage. It is hard to see how all the parts fit into a whole. In this way, consumers see technology as a saviour, because it offers a way of offloading mundane tasks, and as an enslaver, because it creates increased choice and complexity. People are looking for simplicity and convenience.

Co-operation

Consumers and companies need to recognise their increasing interdependence and to embrace it. This means developing relationships that start to glue the fragmented parts of the whole back together. The new theme of the market place is co-operation rather than competition – the words of the moment are symbiosis, synergy, complementarity and collaboration. From a consumer perspective this process finds its highest form in communities of interest such as those found on the World Wide Web. People are turning to each other in order to get a greater sense of perspective, to share information and experiences. Just as consumers are forming communities around their own interests, so are companies – commercial communities and consortia are on the rise.

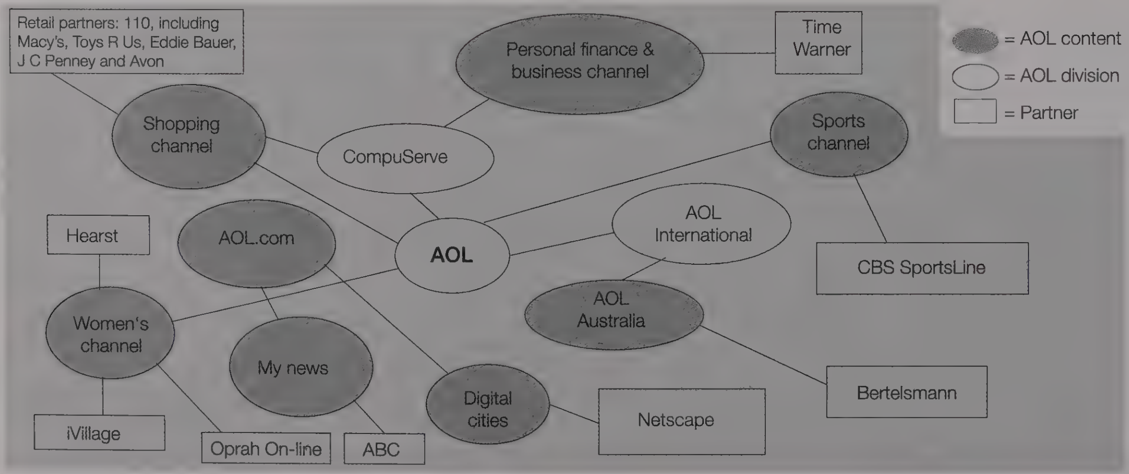
The macro-level – the organisational driver

The media sector is rife with change – companies are attempting to move into new media markets and into whole new non-media related areas, as was discussed in the previous section. But, to move into these new areas and so open up new revenue streams requires the development of new skills. Acquiring these new skills can be a very time-consuming and costly process – time and money that most companies would prefer not to spend.

There are very few companies who can just buy themselves a place in a new market through acquisition. The realistic option is to look for partners with the necessary skills to join together in a joint venture. This spreads risk and limits the investment that is needed. This is especially true when a media company is trying to enter a market completely unrelated to the media. The difficulties of supply-chain management and customer-fulfilment on their own are legion.

The BiB joint venture is a classic example of one of these new commercial communities. BiB was formed by the coming together of BT, BSkyB, Midland (HSBC) and Matsushita – each bring something different to the party. By working together, they hope that they can achieve something that none of them could have achieved on their own. BT brings the return path (the telephone), BSkyB brings the digital satellite, Midland brings the transactional system and Matsushita brings the consumer electronics knowhow. Each has a piece of the puzzle. When Capital Radio added a CD-selling function to its Web site it did not try to do it alone, instead it formed a relationship with Telstar – the music

Figure 5.28 Some of the partnerships formed by AOL in September 1998

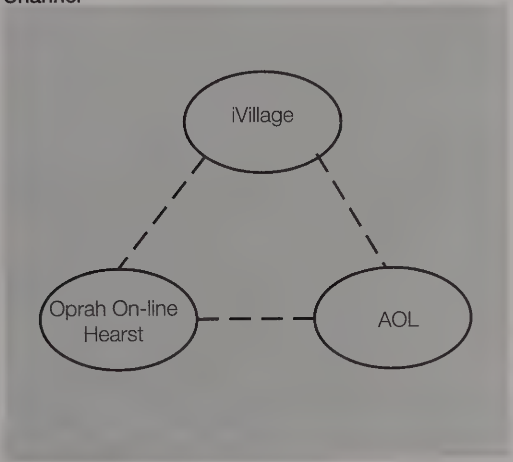


Source: The Henley Centre, Media Futures 1999

distributor and mail-order house. Likewise, Dixon's has set up its Internet service in conjunction with Energis.

In the on-line world, collaboration and partnering is even more intense. Figure 5.28 shows just some of the partnerships and joint ventures that America On-Line has participated in during September 1998. If we take the development of the Women's Channel as an example, we can see that the parties – iVillage (a company specialising in setting-up and moderating on-line communities), Oprah On-line (the interactive division of Oprah Winfrey's media company), Hearst (the publishing and media conglomerate) and AOL (the world biggest on-line service provider), all have very particular specialisms and skills. These skills represent the three elements of a commercial community – skills, customers and reputation.

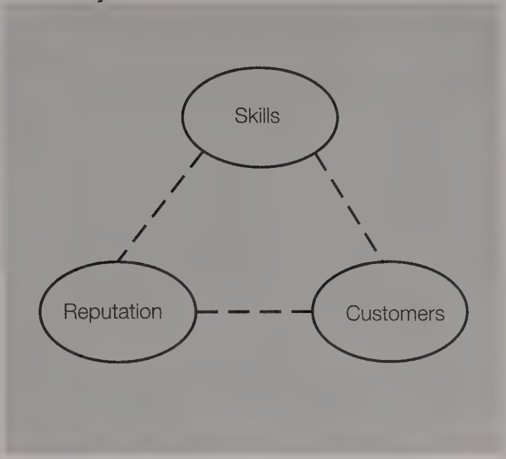
Figure 5.29 The partnerships in AOL's Women's Channel



Source: The Henley Centre, Media Futures 1999

Each of these three elements of a commercial community is effected by the trend of specialisation. None of the elements are generalised – skills, customers and reputation are always specific to some place, activity or market. In the case of the AOL joint venture, it is AOL that is supplying the customers, iVillage that is supplying the skills and it is Oprah and Hearst that are supplying the reputations.

Figure 5.30 The three elements of a commercial community



Source: The Henley Centre, Media Futures 1999

As was stated earlier, as specialisation increases so does overall complexity. This makes possessing the right skill sets very important. In addition, having the right reputation is equally important. This means having a set of brands that have synergies with the new area of development – for example, the joint ventures between Sugar and Littlewoods, and Marks and Spencer and Hello Magazine. Both these examples highlight the coming together of brands with particular skills, reputations and customers.

Every company has customers, or they would quickly be out of business. But, not every company can take their customers with them into a new venture.

As fragmentation, segmentation and specialisation increase so does the potential for collaboration and co-operation. As the choices and alternatives increase, so does the possibility of finding a common cause. Companies realise that they are looking to sell different things to the same sort of people –

links can be exploited, associations can be made and symbiosis can be established. Suddenly companies find they have something in common – their consumers!

The meso-level – the channel driver

In the first section of this chapter, the case for divergence was made. That there will be a proliferation of access devices and points around the needs and contexts of consumers. As existing channels fragment and new ones emerge, there is a greater need to tie them together – to give coherence to the diverse channels to market. Connections and links have to be made across channels. The BBC has been active in cross-promoting its Web site on TV and Radio, and also promoting its TV and Radio output on the Web site. The BBC is exploiting the obvious synergies between its content – by using all the distribution systems that it has at its disposal.

There will be a mixed economy of distribution. It will be on-line and off-line, and analogue and digital. Distribution channels must work together and reinforce each other. The extension of movies across many different platforms has worked to increase the overall consumption of movies and not to cannibalise the different media. By cross-promoting content across all platforms Hollywood has got the channels to add up to 'more than the sum of their parts'. Channels must be harnessed to allow the consumer access at each 'moment when they might' need it.

The micro-level – the content driver

The need to find links and associations is intensified on the micro-level by the growth and diffusion of hypertext over the World Wide Web. Hypertext is fundamentally about a relationship between things – pages, documents, sites, organisations, people etc. These relationships are not structured along traditional vertical and horizontal lines – with all the assumptions about linearity that this entails. Hypertext relationships are elective and so cannot be controlled. They are a product of proactive media. Hypertext is the technology that best suits a fragmented and diverse world. The discrete pieces of content can be anchored together.

The relationships born of hypertext hot-links reflect associations and synergies that consumers make between different things. In on-line communities, people are creating links between sites that symbolise the interests that form the heart of their communities. From a user's perspective, hypertext is no respecter of boundaries. Links and paths cross hierarchical, organisational or market boundaries and make connections between seemingly unrelated divisions, companies, sectors or products. Hypertext can provide an organisational framework from a stakeholder's point of view.

On the Web, most of the thought about links concerns the compilation of links out of a particular site. But, just as a Web site can link-out, so other sites can link-in. Amzaon.com has 225,000 links from other web sites into its own pages – each of these links is a point of sale, a virtual branch-office for an on-line locality. Yahoo.com has 620,000 pages linking into it, Excite has 244,000 and bbc.co.uk has 30,000 (www.channel4.co.uk has 670). These links are the arteries of modern business bringing consumers into the site.

If we look at the links into the www.cadbury.co.uk site, we can see the full spectrum of associations and relationships represented. The site has 815 links into it, an analysis of the first 100 shows that the reasons

Figure 5.31 The links to Cadbury's web site

The Cadbury's web site has 815 links: of the first 100,

- some are about share prices
- some are about key advertisers
- some are about Birmingham
- some are about Coronation Street
- some are about food manufacturing
- some are about jobs
- some are about suppliers
- some are about corporate governance
- some are about chambers of commerce
- some are about tourism
- some are about food technology and engineering...

... but most are about the love of chocolate!

Source: The Henley Centre, Media Futures 1999

for the link range from share price information, to employment and of course chocolate. Each link represents a particular type of relationship that other people and organisations have with Cadbury's.

These links also reflect the diversity of Cadbury's stakeholders – consumers, suppliers, investors, workers – they all become apparent. They represent questions that people are asking of Cadbury's – *"what are Cadbury's profits?" "how do I get to Cadbury's World*" or *"who makes the best chocolate in the world?"* The World Wide Web puts organisations and companies in a wider context; it reveals the associations that people make and the network of relationships that they are bound up with. They show how embedded a company is in the lives, interests, and needs of others.

Weaving the fragments back together

As living cells divide they do not fragment, they integrate. They are held together in a system – an interlinked web of relationships. The important thing is not so much the cell itself but how each cell is linked and related to every other. It is in the ties and bonds that hold the cells together that the value lies. In the future, the links that are made between the individual parts of the media industry – consumers, channel content or companies – will be increasingly important.

It is time to recognise that there is a media environment and system; as fragmentation and specialisation occurs, so do interdependence and complexity. This means that, as time goes on, consumers will be looking for brands to help them navigate across the fragmented and complex world. They will be looking for communities to belong to; ones where they can trust those that they wish to depend on. By creating the right associations, links and connections it is possible to be more than the sum of your parts.

5.5 How? Why?

Media Futures describes a new environment for the media – an environment characterised by change and uncertainty. In this new environment, new sets of questions need to be asked of the consumer by media companies.

Companies have traditionally collected data on the 'who's', 'what's', 'when's' and 'where's' of consumer behaviour. The Henley Centre believes that the key question to ask consumers in the future is 'why?' This is because the established predictors of behaviour who depend on generalisations, for example, demographic profiles, no longer do the job. The importance of the 'why' question is that it reveals consumer's motivations and attitudes. It is this kind of data that companies will have to understand if they are to increase their sales in the future.

Imagine that a man has gone into a supermarket and bought a bottle of wine and a quarter of a pound of cheddar. This information is duly logged in the supermarket database. This is when direct and one-to-one marketing should jump into action. We can imagine this consumer being alerted to a new promotion of New Zealand Chardonnay, and that, while he might enjoy cheddar, there are some other cheeses from around the globe that he also might want to sample – and there is a coupon giving him 25% off his next purchase of brie.

But, for sake of argument, let us assume that this man does not like cheese and is teetotal. He did make these purchases and yet they run completely counter to what we now know of him. The database can't tell you why he made these purchases, the mailout is wrong and the supermarket is wasting its resources. It could be that he has friends round to dinner, who do drink, which means he buys a token bottle of wine. And the cheese, well he decides he had better do something about his mouse infestation before the guests arrive. Perhaps this is an extreme example, but it shows that the collection of data can get you no nearer to an answer or a reason for behaviour. What is missing is 'why?'

'Why?' is concerned with change – it is a question that is asked if something happens. If 'everything remains equal' and nothing changed, then the question 'why?' would never be asked. In fact, far from there being no change, the world is going through a time of great change. Things are not stable or static – they are going through a process of transition. This is particularly true of consumers. They change their mind and their reasons for doing things endlessly. And, in an age increasingly characterised by proactive media, it is the consumer who holds the initiative.

Why ask why?

With the proliferation of media content, consumers are being asked to make more and more choices. Knowing why a consumer is choosing one thing over another is absolutely essential to ensuring they carry on choosing in the future.

Many companies are using the personalisation and customisation of media to secure loyalty and retain customers. This process of personalisation makes asking 'why?', understanding the context of demand, even more important. The profiling and tagging of content and consumers by computers cannot analyse why something is wanted. A product can be classified and catalogued from many different perspectives. The answer cannot be found in the product itself, but in the reasons why the consumer wants it.

Consumers are increasingly aware of the processes, aims and motivations of companies. They feel that they have an answer to 'why' companies behave the way they do. The same cannot be said of companies' knowledge of consumers. The processes that drive consumers are still opaque, for unlike the rules governing the behaviour of companies there is nothing particularly predictable about consumer behaviour. This is increasingly the case, as the choices that consumers have in their lives proliferate and as consumers themselves become less predictable. Nothing can be assumed anymore. No consumer can be taken for granted.

From the consumer perspective, the question is how?

As consumers enjoy the freedom to choose, they are faced with an enormous number of choices. Consumers also need to know the answer to the 'what', 'where' and 'when' questions, but like companies, consumers have to start asking more difficult questions of each other and of companies. They need to ask 'how?' questions like:

- How can I find what I want?
- How do I know what I want?
- How can I know about new products as well as old ones?
- How do I know I can trust X?

The questions that consumers are asking are about process and navigation. They can often feel lost among the bewildering array of choices and must make decisions about who to depend on – themselves, each other, companies, the state or technology. The trend over the last ten years is for consumers to look less to remote institutions for the answers to these questions and more to each other and to the things that are closest to them.

In *Planning for Social Change 1998*, The Henley Centre identified the opportunity for 'trust brands' to become partners for consumers and help them confront, share and manage risk. This is not to argue for brand owners churning out more and more products and services bearing an existing brand name. It *is* to say that, if a customer already has a trusted brand in a particular area, they are more likely to welcome the same brand operating in another area where they feel particularly vulnerable to making the wrong decision. Obvious examples are the fields of financial services and new technology itself.

The Internet is an exciting platform on which to start developing these types of services. The growth of on-line communities provides an opportunity for consumers to share and exchange the answer to these 'how?' questions. The arcane expertise of all consumers across every imaginable situation is made available on the Internet. In communities that continue to grow, this knowledge is exchanged and disseminated. Some people have even turned their 'trusted other' status on the Internet from an informal service into a formal service or business. The challenge for businesses is to understand how best to exploit this opportunity.

5.6 Conclusion

There are two fundamental shifts that Media Futures 1999 has been describing. On one level new technology is changing people's experience of the world from one characterised by stasis and stability to one characterised by dynamism and change. On the other hand, new technology is changing people's experience of the world from one characterised by homogeneity and conformity to one characterised by diversity and difference. Technology is allowing consumers to be proactive and take the initiative. They are feeling a new sense of empowerment and control.

The world is full of new experiences and opportunities. Innovation and creativity are in ascendance. People are expressing themselves in new ways and finding new identities and forms of belonging. It is the media that is at the forefront of this experimentation and expression. But, alongside all this choice comes the fact that choices have to be made. With every choice comes a risk – that something will not be right or will go wrong. The proliferation of choice and the acceleration of change makes the world much more complex.

These paradoxes are inscribed deeply into the lives of consumers. They drive consumers to look for media that reflect their individuality and their place in the community. They reflect consumer's ambivalence and mixed feelings about having power and control, and the responsibility and effort that goes with it. These aspirations pull consumers in two directions – they make them unpredictable and complex: consumers are shouting *"I want diversity*" and *"I want simplicity"* – they are shouting *"I want opportunity"* and *"I want stability"*. This is the evolving paradox that all companies will have to face.

MEDIA FUTURES 1999

interactive strategy: FAQs

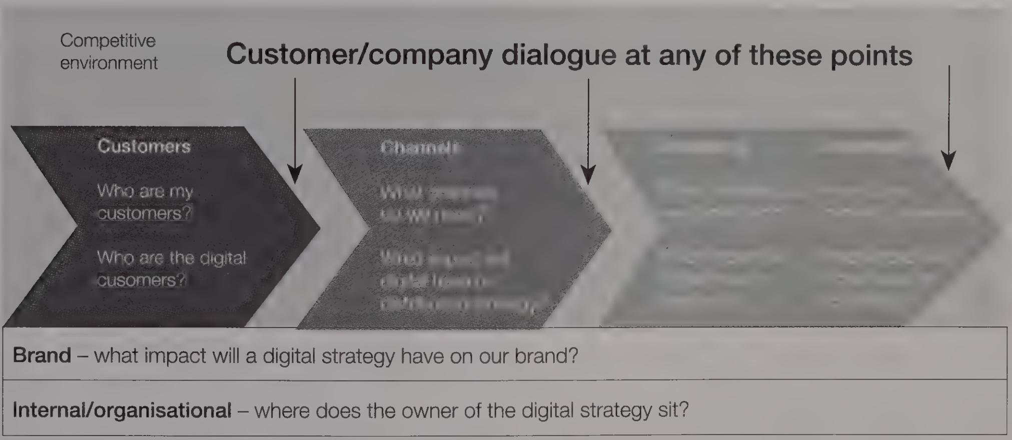
6 Interactive strategy: FAQs

6.1 Introduction

The objective of this chapter of Media Futures 1999 is to determine what digital interactive media will mean for you and your business. It provides insight into how you can use the knowledge gained from Media Futures 1999, as well as other sources of expertise, to answer the over-riding question - **why does my business need a digital interactive strategy?**

To address this issue, your organisation will need to consider what impact digital interactive media will have on *all* the components of the business ie, your customers, distribution channels, and marketing communications. At the same time, you will need to assess the implications for your brand and your organisation, as well as keeping your eye on what existing and potential competitors are up to.

Figure 6.1 Why does my business need a digital strategy?


Competitive environment
Customer/company dialogue at any of these points
Customers
Who are my customers?
Who are the digital cusomers?
Channels
Brand – what impact will a digital strategy have on our brand?
Internal/organisational – where does the owner of the digital strategy sit?

Source: The Henley Centre, Media Futures 1999

The process of developing a digital interactive strategy is complicated and fraught with pitfalls. Perhaps this explains why many companies are adopting a wait-and-see approach or, if they are developing new media channels, it is often under the guise of a test or R&D project.

We aim to help you to navigate through key parts of the process. We do this by posing a series of frequently asked questions (FAQs) that should be considered if you and your business are to identify and develop clear objectives and proceed along the decision-making process.

- These questions have been stimulated not only by internal Henley research, but also and more importantly, by the outside world, by planners and decision-makers from a variety of companies.

Companies operating in 'traditional' retail, home shopping, FMCG, financial services and call centre outsourcing were interviewed.

- Our approach to discussing the FAQs is driven by findings from the Media Futures 1999 survey and analysis and the Henley COMMET, as well as other public and Henley sources.

- Obviously, as a thriving, operating business you will have at your disposal your own knowledge-base. Anything that we discuss in this and the following sections does not nullify your own information – it supports it and hopefully raises questions about what you have and how you can fine-tune and develop it in the future.

6.2 Why should you consider a digital interactive strategy?

It cannot be disputed that we are living in a world where the constraints of time, place and structure are gradually being eroded – a world where content, computing and telecommunications technologies are converging and fuelling the new economies of e-commerce, e-transport, e-labour and e-property.

People and businesses wanting to move with the times and continue to be, or become, successful, have to keep on top of a complex and often confusing process. As one interviewee stated: "*we are basically at the start of an enormous learning curve. Everyone is inventing at the moment*". It can seem awesome – seemingly driven by the ever-increasing pace of technological development. Yet it is this very activity that means you and your business have to consider digital interactivity.

- Information age companies dominate the industrial economy – in September 1998, Microsoft was the world's most valuable company, valued at some $305 billion.

- Internet traffic doubles every 70 days.

- A web site is created every 2 seconds – even if this is anecdotal hype, it's powerful hype.

- Procter & Gamble has stated it will spend $3 million on interactive advertising - "*if retailers don't adapt, manufacturers will side step-them and sell direct to the customer.*"

- 51% of European businesses have Net access (61% in the US).

- Some 5 million people worldwide are now using the Web to buy/sell shares.

- Even the Pope is doing live Webcasts!

But, should you be a first-mover in the development of interactive digital?

In the UK, the relative delay in the appearance of a significant number of organisations pioneering interactive digital media can be put down to the following reasons – some of which we address in more detail later:

- Cultural issues, such as the absence of an R&D culture or the lack of board-level vision with regard to new delivery possibilities and the potential of e-commerce.

- Ever-present internal politics, particularly the politics of ownership that surround most significant new initiatives in large organisations. In particular, the ongoing debate as to whether ownership of digital interactive media should lie with the 'creatives' in marketing or the 'techies' in IT.

- The battle for IT resource in the light of the need for Year 2000 compliance and the impact of EMU.

- The perception that 'new media' is not a core competency and the fear of wasting investment.

- The real investment required to upgrade middleware and the back-office system to deliver integration.

Our interviews and research for Media Futures 1999 suggest that the two greatest inhibitors to those companies that would otherwise have blazed a development trail have been:

1. The difficulty of building a hard and fast commercial business case in the absence of, until relatively recently, genuine e-commerce activity.

2. Partly as a consequence of this, the perception that there is no real first-mover advantage to be had.

What do organisations perceive to be the advantages of being a first mover into any new domain?

- The opportunity offered by being first to the market in terms of blocking competitor entry.

- The degree to which being first to offer an existing/new product via a new channel enhances or builds brands and customer relationships.

- The chance to gain significant market share – quickly.

- The opportunity to develop new competencies and key learnings and the extent to which these can be protected to provide longer-term competitive advantage.

To date, these advantages have been hard to see. However, some opportunities are now emerging. These are:

- The emergence of as yet small, but no less significant, amounts of e-commerce, especially amongst higher-value segments of consumers.

- The extent to which digital interactive media can enhance the brand, in particular the customer relationship, through customisation and, more immediately, through engaging brand-enhanced, value-adding interactivity.

So, how should you decide whether to develop a digital interactive capability?

Over the last 12 months, the consumer rationale for digital interactive media has started to crystallise into hard data. The following steps will be useful in helping you put together the demand-side argument for the business case. The hard data that needs to be established are:

(i) Current and forecast levels of PC, Internet and digital TV penetration within your target markets.

(ii) Current usage and potential future usage-figures for PCs, the Internet and digital TV.

(iii) The current level of transactions activity on the Internet or digital TV, along with forecasts for potential future activity.

(iv) The overall value of the target market.

These figures can be used to determine the potential volume and value of existing and future sales via digital interactive media and/or the number of customers that you can expect to contact via the new channels. In addition to gathering together the hard evidence, you will also need to consider *softer* consumer issues, so that a complete evaluation of the business case for Internet or digital TV investment can be made.

Throughout this process, you will need to keep a firm foot on the ground! We intend to provide practical guidelines to help you to keep your eye on your objectives as you develop segmentation, distribution, organisation and brand strategies, and avoid the pitfall of putting "old wine into new bottles" simply for the sake of it.

"I have to ask myself – are we thinking enough about how we can serve our customers with this new capability [interactive media]? We mustn't just use the technology for the sake of it."
Commercial director, home shopping company

So…

Don't ignore the trends – you need to consider a digital interactive strategy
But, should *you* be a first mover?
By asking the right questions, you can evaluate how and when digital interactive media should be used

6.3 Start with what you know about your customers

Some of the most fundamental questions start with basic demographics and behaviour – "who are my customers?", "what are they buying?", "when are they buying?", "where are they buying?" Your own market research and customer databases should provide much of this insight, since most data collected by companies focuses on such socio-demographic and behavioural characteristics.

What you may not know is the answer to the question: "*why* are they buying my products and services?"

To understand this, you need to have a handle on the changing aspirations, needs, moods and modes of today's consumers.

- The Henley Centre's *Planning for Consumer Change* programme shows that people are less predictable than they used to be – they no longer act their age or social class for example. Sometimes, they don't even act their gender!

- People want a variety of channels with which to contact businesses, to suit whatever mood or mode they are operating in. For example, if they are feeling time-pressured, they will want something that offers convenience. At other times, they might be more willing to invest time and energy and opt for a more involving option such as a face-to-face meeting.

This leads us onto the set of FAQs:

"When will digital TV and the Internet take off?"
"Who will buy via digital interactive channels?"
"What are the barriers to uptake?"
"Which channels will best suit my product mix?"
"How should you integrate the new channels into your business?"
"What implications are there internally?"
"How will new media impact on marketing communications?"
"Is the future secure for agencies?"
"How will digital interactive media impact on branding?"

These are fundamental questions for any company considering its digital interactive strategy.

6.4 "When will digital TV and the Internet take off?"

In previous chapters of Media Futures 1999, we have learnt that there are no clear-cut trends leading to an obvious winner in the race between the Internet and digital TV. Both technologies will evolve, both will increase their penetration and both will emerge as platforms for e-commerce and marketing communications. Beyond this, we can say with some certainty that, over our five-year forecast period, the PC will remain the dominant technology for Internet access.

Media Futures 1999 provides you with some facts, figures and forecasts. First we consider the number of people using the Internet at home:

- PC penetration will grow from its current level of 30% penetration of UK homes to 36% in 2001 and 40% in 2003.

- PCs capable of Internet access will grow from 10% of UK homes in 1998, to 32% of UK homes by 2003. This translates to 80% of PC-owning homes having Internet access by 2003.

- This represents a potential access market of 12.6 million home users by 2003, of which 11.3 million will be using the Internet from home.

Additionally, consumers will be able to access the Internet at sites outside the home (to date, this has been the main point of access in the UK):

- Those who can *only* access the Internet from outside the home will fall from the current level of 9 million people, to 7.7 million by 2003 (the fall is due to an increase in the number of dual-access consumers).

- By 2003, the total universe of consumers with access to the Internet at some site, whether at home, work, school or university, will be 20.3 million.

- This means that just over 44% of the UK's adult population will have access to the Internet by 2003.

Let us now consider digital TV:

- We predict that digital satellite TV will make the most headway in the digital TV market over the forecast period, with 17.4% of households subscribing by 2003.

- 16% of households will be connected to digital terrestrial TV by 2003.

- The late entry of the cable companies into the digital TV market will mean that digital cable penetration will lag behind the competitors – by 2003, 11.4% of households will subscribe to digital cable.

Overall, by 2003, 44.8% of UK households will be subscribing to digital TV in one form or another.

6.5 "Who will buy via digital interactive channels?"

Generating mass-market potential for e-commerce will only happen if enough people who have access to digital interactive channels convert into active users. The very significant increases in the number of households with dual- or multi-access, will, we believe, greatly increase the chances of trialing and using the technology. In 1998, 60% of home Internet users had first tested it somewhere else, but it is in the home that the vast majority of transactions do and will take place. So, what type of person is using the Internet at home for transacting?

- The last 10 years have seen a swing from C2 household ownership of PCs towards AB ownership – 54% of AB households currently have a PC, versus 34% of C1s.

- In 1998, over 70% of Internet-capable PCs were in ABC1 homes.

This upper-income profile of Internet and PC usage has been one of the factors attracting the development of transaction capability, particularly in the financial services sector. A second is the attraction of the Internet for the younger Generation X and Millennial Kids age-cohorts.

The transactor group still remains relatively small, however – just 15% of all potential users, or 1 million consumers, have actually made a purchase on the Internet. However, this figure is forecast to grow rapidly to just under 6 million by 2001, and to 11 million by 2003.

- This suggests that 24% of adults will be using the Internet for the purchase of goods and services by 2003.

But of course, the future is not just about the Internet. Interactive digital TV should attract a broader audience in the nearer term. Who will be using and, ultimately, transacting over this medium?

- Like analogue TV, digital TV will attract viewers from a wide spectrum of social grades – 10.9% of ABC1s said in the Media Futures 1999 survey that they 'think they will subscribe to Digital TV within a year or so', compared with 9.6% of C2DEs.

- 4.7% of women think they will subscribe within a year or so compared with 13.9% of men.

- By 2003, The Henley Centre forecasts that 20% of all UK households (equivalent to 50% of those with digital TV) will have interactive digital TV. By 2008, this will have increased to 50%.

We believe that people, regardless of their social grade, are likely to make fun, indulgent purchases on digital TV rather than on the Internet. For example, when ordering a pizza, an individual is unlikely to want to go through the inconvenience of waiting for the PC to upload before ordering, they are much more likely to opt for digital TV – especially if they are watching it at the same time. Since the television is at the heart of the house, watching TV is often a family-centred activity. As a result, mass-market interactive transactions are likely to evolve around products/services suitable for joint purchasing.

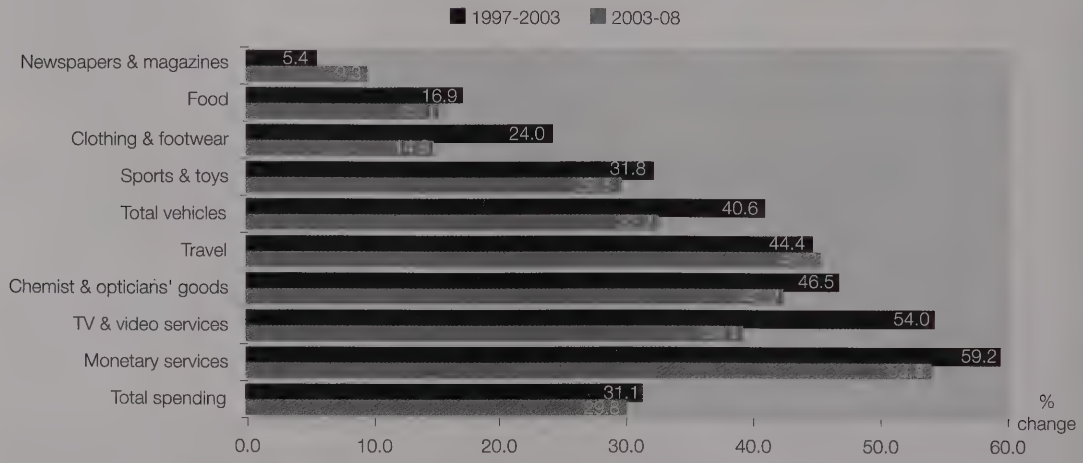
As we saw in the earlier chapter, 'Television – a digital revolution', for consumers to interact with the TV they will have to adopt a more 'lean forward' approach. In the early days, however, it will help if companies adopt interactive approaches that are sensitive to consumers' tendencies to watch TV in a 'lean back' mode. Business have to take cues from the environment to ensure interactive services gain acceptability, eg, the TV is very visual. This capacity has to be utilised to maximum end to stimulate interactive digital TV transactions.

To ascertain the potential for selling your goods and services via digital channels you will clearly need to have a view about the likely future success of your products and services. You will also need an understanding of current e-buying habits.

Anecdotal early evidence of e-buying suggests that, not only is it higher-net-worth consumers that are interested in doing it, but that when they do, their average transaction values are higher. This can be attributed to:

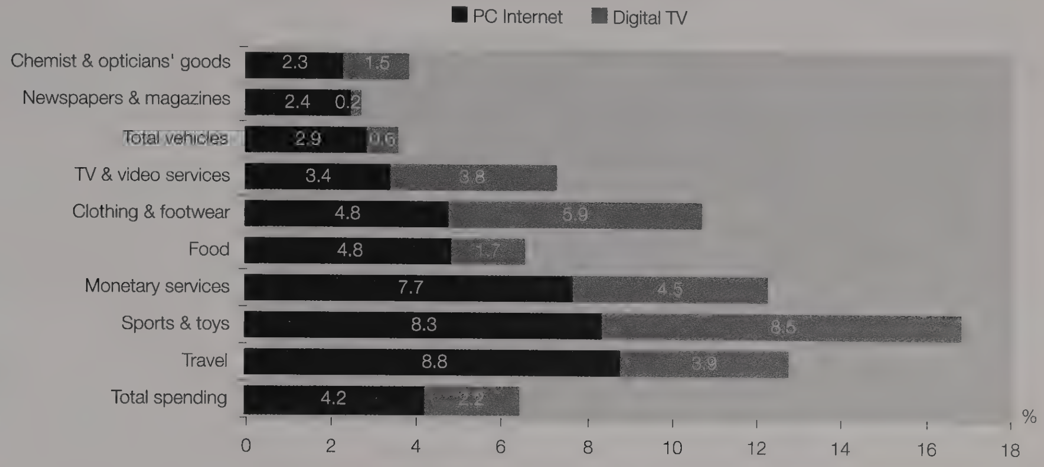
- The fact that the opportunity for transparency on the Internet can make the consumer feel less inhibited.
- The absence of an opportunity to haggle about price suggests that the price quoted is the bottom-line.

Figure 6.2 Consumer expenditure forecasts Current prices



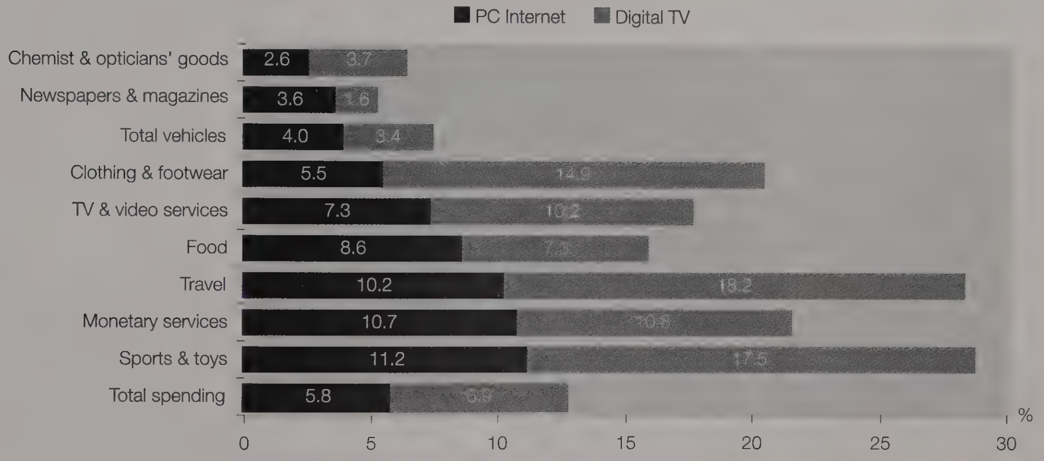
Source: The Henley Centre, Media Futures 1999

Figure 6.3 Share of consumer expenditure through interactive technology 2003



Source: The Henley Centre, Media Futures 1999

Figure 6.4 Share of consumer expenditure through interactive technology 2008



Source: The Henley Centre, Media Futures 1999

- As consumers can browse and shop at leisure, in the absence of a sales person or any sense of sales pressure, they are more likely to add features and benefits to the basic proposition, and so spend more.

"It's like the Dell proposition. You can have a modem card for $35 over the phone or £30 over the Net. The result is that people buy more items. With us they will add extra bits of cover that they wouldn't have bought over the phone. So we have the double whammy. The cost per sale is lower and the value of the sale is higher."
Internet manager, UK insurer

How much will they spend, on what, and how?

Before we look at how consumers are and will be spending via digital channels, it is worth examining our forecasts for overall consumer expenditure to understand which sectors are likely to do well.

In 1998, the total amount of money spent on the Internet by UK consumers was £500 million – just 0.13% of consumer expenditure. By 2003, we forecast that the electronic shopping market will be worth some £42 billion – equivalent to 6.4% of total consumer spending. By 2008, e-shopping will have increased to £108 billion, or 12.7% of consumer spending.

Today, the average transactor spends £450 per annum through the Internet. By 2001, this will have almost doubled to £820 and, by 2003, it will be £1,700. Although the percentage growth figures are impressive, the individual and aggregate amounts of expenditure over the Internet will remain small.

As can be seen, monetary services (payments to IFAs and other financial intermediaries) is one of the sectors forecast for a significant shift; with e-commerce to represent 12% of the sector's distribution by value by 2003, and 21% by 2008. By and large, it is services and non-durable sectors that are forecast for the most significant growth.

6.6 "What are the barriers to uptake?"

While there are factors driving demand for different products and services via digital interactive media, there are also some major obstacles to be overcome for the new channels to become successful and profitable. A major barrier is people's concern about the lack of security when using credit/debit cards over both the phone and the Internet.

"There is a concern in the back of my mind when using the card over the phone, but I do it anyway. I know it's neurotic but…"
Consumer focus groups, 1998

- 56% of people think that using their credit card on the Internet is either fairly or very insecure:

"I'm probably more concerned about the Internet. I couldn't tell you why, but it's probably due to the perception that you have less control. It seems more risky, not a one-to-one line but a one-to-a-thousand line."
Consumer focus groups, 1998

- Even early adopters of the Internet appear to be cautious:

"It's a lot easier making an Internet site look like a reputable business. Logos are not that difficult to get hold of."
Consumer focus groups, 1998

- The media and word of mouth more often than not heighten peoples' fears. While the technology can be proven to be safe, this will be meaningless as long as peoples' perceptions make them believe the contrary:

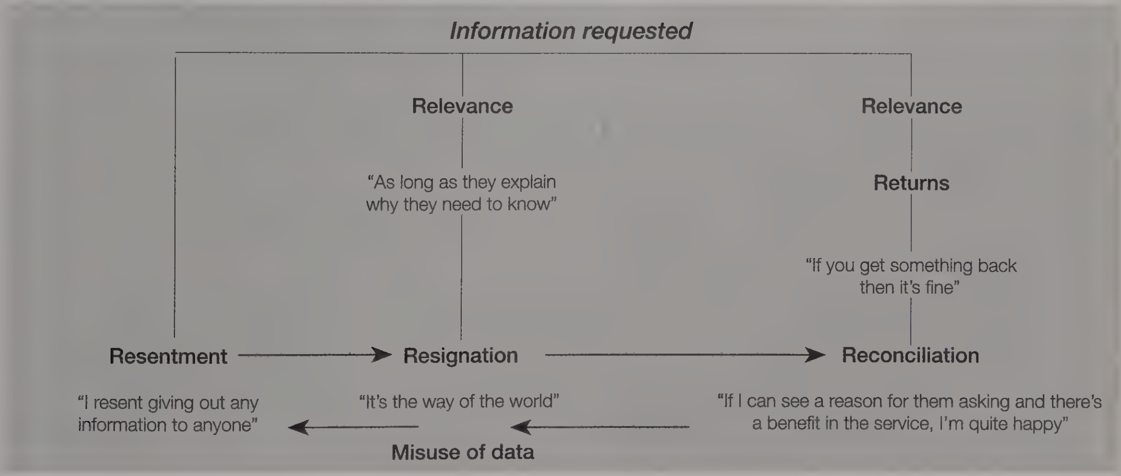
"I didn't realise it was dangerous until somebody else explained. And Roger Cook said..."
Consumer focus groups, 1998

What does reassure people about security is not the technology itself, but the presence of a familiar, trusted brand.

"I bought from QVC. I do worry at times, but they seem such an efficient organisation."
Consumer focus groups, 1998

"I log with MSN. I trust them and their security."
Consumer focus groups, 1998

Figure 6.5 Factors influencing attitudes to information provision


Information requested
Relevance
"As long as they explain why they need to know"
Relevance
Returns
"If you get something back then it's fine"
Resentment
Resignation
Reconciliation
"I resent giving out any information to anyone"
"It's the way of the world"
"If I can see a reason for them asking and there's a benefit in the service, I'm quite happy"
Misuse of data

Source: The Henley Centre

Data from BMRB's Internet monitor reveals that, once the initial hurdle is overcome, consumers' fears about on-line security reduce as they gain more and more positive experiences.

All this means that, to encourage mass adoption and acceptance of e-commerce, companies must proactively try to eradicate consumers' perceptions of security risks by providing reassurance, and encourage them to trial the technology whenever possible.

The old chestnut of data-provision is alive and kicking

Before transacting, there is another barrier – that of people's willingness to divulge information about themselves. As confident, empowered consumers we are all used to being asked for personal information. We know that companies want this information so that ultimately they can sell something to us. As savvy consumers, we can take evasive action: "*I always put 'sufficient' when they ask for my income; and I have given them the wrong name and address!*"

Concerns over information provision are extending into the cyber-world. For example, some 44% of male and 50% of female Internet users have been put off web sites because they have had to register. Given that much is talked about the ability of interactive technology, especially the Internet, to successfully deliver customised services to individuals, it is vital that the willingness of people to share information is cultivated.

The Henley Centre has identified several key factors that influence consumers' attitudes toward information provision. These are resentment, relevance, resignation, returns and reconciliation.

Resentment – if a company simply demands a customer for information, then the customer can easily resent it.

Relevance – if the company shows why it is asking for the information, then the customer becomes more willing to oblige and provide it with what it wants.

Returns and reconciliation – if, in addition to demonstrating the relevance of the information, the company offers something in return (eg, a discount) and this has a real benefit to the consumer, then they may be reconciled to giving the information.

- 60% of consumers are happy to provide personal details to a company if it means that they will be provided with better service in return.

- In the main, consumers realise that if they are being offered a phone or PC-based service, the providers are saving money by reducing, for example, the cost of maintaining their high-street presence. Consequently, they want something in return. Some banks, for example, are offering cheaper products or better interest rates via direct distribution channels.

"You have to offer advantages to customers for using Internet or digital TV – why should they save you money? And of course the Web will be competing with 0800 numbers."
Development manager, Financial services

- Such developments have to be thought about in the context of your overall brand. How will offering a discount on sales via digital interactive channels impact your brand image and reputation?

If a company abuses the information they have received in 'good faith', a reconciled customer can easily become a resentful one.

- A recent survey from Harris Research for the SAS Institute showed that, while some 66% of companies interviewed stated that they had a customer relationship management strategy in place, with lots of data on their customers, some 90% were unable to use it properly, and thus were likely to be in danger of irritating their customers in a manner of ways.

What other barriers exist?

Another barrier that your organisation may need to consider is the cost of usage – consumers are unlikely to be willing to pay for the privilege of using digital interactive channels, unless a significant benefit can be offered in return. Another potential barrier, particularly relevant for retail and FMCG companies, is the issue about how easily women will adopt new digital technology.

- 47% of women (compared with 35% of men) agree that "I just don't understand computers and technology" and only 38% of women, compared with 52% of men, use a computer at home.

- However, women do embrace technology that plays to their strengths and abilities. One example is the telephone – some 84% of women, compared with 59% of man, *enjoy* using the telephone.

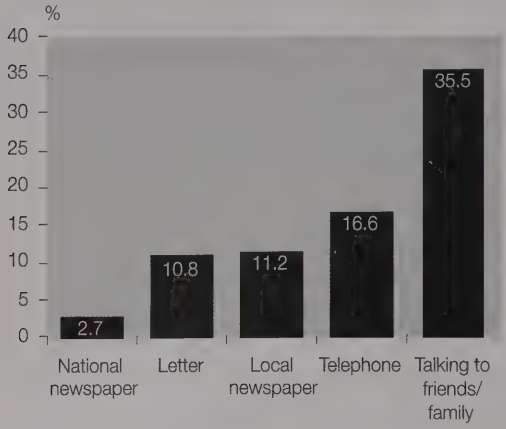
6.7 "Which channels best suit my product mix?"

The decision about which channels to develop will clearly be influenced by how your customers or potential customers want to transact with you. You will also need to consider a variety of other issues: "how will they find out about my product?", "how will they compare prices?", "how will they recommend our products to others?"

In the Media Futures 1999 chapter 'Understanding the Internet' we show how the different media are more or less suited for fulfilling different consumer needs. No single medium suits every potential media moment. Instead, different media are 'top of mind' in different situations, according to the consumer's mood and mode. We call this the 'media reflex' – figures 6.6 to 6.9 illustrate the point.

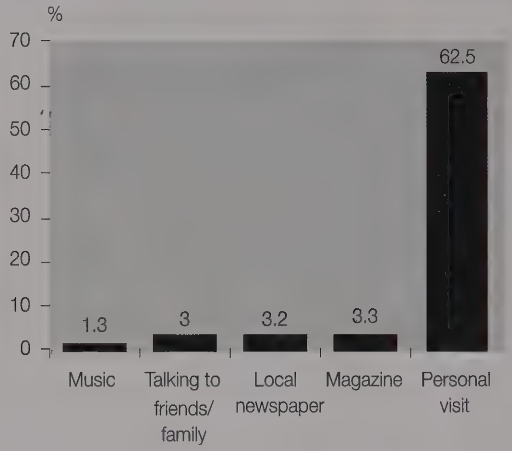
People's preferences and priorities change once they start using the Internet. Despite this, however, a key learning is that neither the Internet nor digital TV will entirely replace existing channels. Traditional mass media, the telephone, post, and face-to-face meetings are all still essential. It is more realistic to think of the new channels as complementing the old – they will be used as the mood and mode of the individual finds appropriate.

Figure 6.6 Top 5 ways of recommending "a company that has given you good service" % of respondents, first choice medium



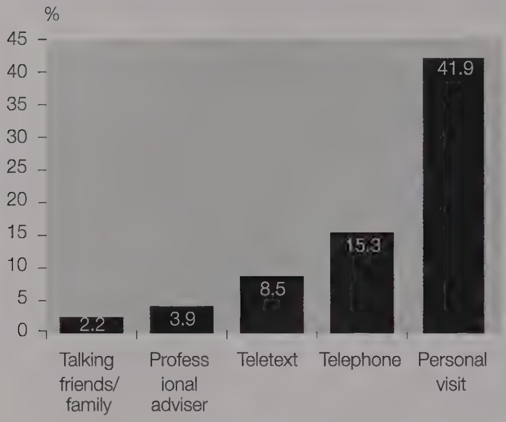
Source: The Henley Centre, Media Futures 1999

Figure 6.7 Top 5 ways for buying a music tape or CD % of respondents, first choice medium



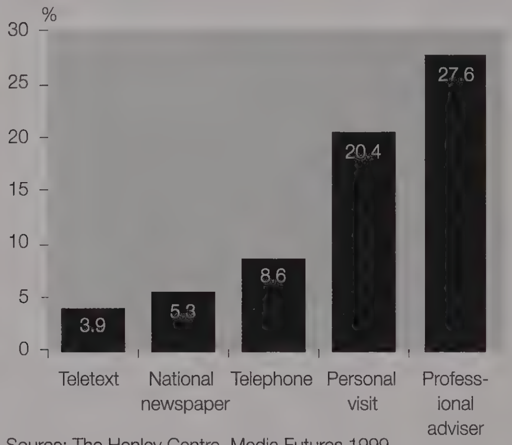
Source: The Henley Centre, Media Futures 1999

Figure 6.8 Top 5 ways for buying a holiday or plane ticket % of respondents, first choice medium



Source: The Henley Centre, Media Futures 1999

Figure 6.9 Top 5 ways for comparing "rates of interest for a mortgage or personal loan" % of respondents, first choice medium



Source: The Henley Centre, Media Futures 1999

So…

Have you identified which of your customers are likely to use digital interactive channels?
…and the barriers to overcome in order for them to start using them?
Have you identified the reasons why your customers may want to interact with you?
… and the different moods or modes they may have on these different occasions?
… and do you understand how this will influence their channel preferences?

6.8 "How should you integrate the new channels into your business?"

"Network-based interactions must be integrated into the rest of the business – with all that this entails"
Commercial director, retail

The previous section provided insight into what products and services people are likely to buy via digital interactive channels and their likelihood to use different channels on different occasions. An important conclusion is that people desire a **multiplicity of access points** to make contact with, and be contacted by organisations. This implies that providers will need to manage a **mixed economy of channels**, at least for the foreseeable future. The traditional idea of channel competition must be replaced by an appreciation of how old and new channels will work together. This will require an understanding of how the different channels **complement** each other, as well as compete with each other.

The channel strategy will also need to balance the conflicts that arise from meeting consumers' apparently contradictory needs.

Figure 6.10 The Hope and Fear paradox of technology

Freedom	→	**Enslavement**
"I can contact you by whatever means"		"I'm available all the time"
Control	→	**Chaos**
"I have bookmarked your web page"		"The browser didn't recognise the search word – I went all over the place"
Transformation	→	**Destruction**
"Our business has gained new market and new customers via new channels"		"We totally under-estimated the number of calls to customer service and the cost"
Intelligence	→	**Ineptitude**
"The IVR system is clear and directed" "The website is relevant and well-designed"		"The IVR system went on and on" "I couldn't find anything for me on the website"

Source: The Henley Centre

- A well-known Henley Centre theme is the 'in and out of control consumer paradox'. This reflects the fact that peoples' day-to-day experiences as consumers are mixed: sometimes we are in control and confident about making a purchase decision; at other times, we can feel distinctly out of control and ill-equipped to make the right decision.

- This paradox is mirrored in consumers' experience of technology. Figure 6.10 illustrates the 'hope and fear paradox of technology' – in this instance, it relates to consumers' attitudes towards new digital interactive channels for purchasing or communicating.

It is critical to assess how your business will manage any new channels alongside the current best practices for managing your existing channels. Doing so will have important implications for how your business is organised and where in the organisation the responsibilities will lie for managing different channels. Most importantly, however, it implies that you must have a clear set of objectives for the new channels.

"We offer three methods of ordering goods and services; phone, fax and by the Internet. We have to do this since it's all about differentiation, and we can also grow market share. We are attracting new customers by doing this, not migrating existing ones."
Retail call centre manager

So, what is your objective for developing digital interactive channels?

- Is it to gain market share?

- Are you simply responding to competitive pressure?

"A lot of people are getting a web site simply because they think they have to – not thinking the whole process through and what the implications are before they rush in."
Outsourcing call centre

- Are you striving to cut costs?

"We have the double whammy of more trade and more margin on that trade."
Internet manager, UK insurer

- Is it to retain existing customers?

- Or is it to acquire new customers or reach new geographic markets?

It could be any combination of these reasons. It is important to have clarity of vision, however. If you don't, then you are likely to find that, as you implement your channel strategy, you are doing something that conflicts with other parts of the business. Let's take an example:

- Discussions with a major supermarket about its on-line strategy revealed that it wanted to gain new customers. Yet, separate conversations with people who had gone on-line to use the shop revealed that the stated strategy was out of synch with customers' experience. *"You register for use, but when you go in, it's obvious that it's been designed on the premise that you know the store, you know where to go – it was not new-user friendly"*. The company seemed to have two conflicting objectives. Perhaps the designer of the on-line service wasn't aware of the overall strategic objective, or vice versa. This raises an important internal issue, one to which we return later.

"If it's your IT director setting up your web site, you have to ensure that he or she really knows the strategic direction of the company."
Product development manager, outsourcing agency

So…

Do you have clear objectives for the new digital interactive channels?

Once the business is clear about why it is adopting digital interactive channels and which it will be using, it must think about how the new channels will be integrated into the organisation as a whole.

To help you to think about this issue, it is useful to consider the processes that took place as the telephone evolved alongside face-to-face and direct mail as a critical distribution channel. For the past four years, The Henley Centre has been researching and consulting on Teleculture (the use of the phone as a customer contact medium). Our experience in this area points to some important lessons that can be learned from the call centre industry.

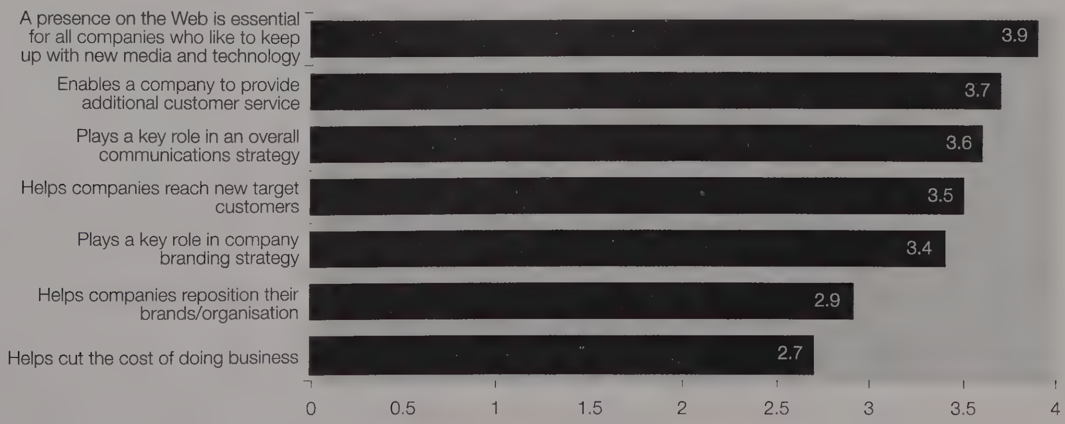
Figure 6.11 Characteristics of the 4 main types of call centre

Reactive 2nd movers Reacted to market developments Risk averse Call centre is small part of distribution strategy In some instances, the call centre has been 'bolted on' and not totally integrated which can cause problems Retail – home shopping – NOT mail order	**Cost cutter** Driven by strategy to cut costs Cost rather than profit centre Typically offer automated customer service Technology used to route costly calls out of system to save costs High Street banks, utilities, government
All that we do Phone seen as main distribution channel Not that risk averse Seen as established market leaders Traditional mail order catalogues	**Risk takers (1st movers)** Never a follower Winning culture Innovative and entrepreneurial Viking Direct, Virgin Direct

Source: The Henley Centre, Media Futures 1999

What parallels exist between call centres and digital interactive media?

Figure 6.12 What are the main reasons prompting businesses to establish a corporate Web site?
Average score for each reason



Source: London Business School, Future Media Research Programme July 1997
Base: A global expert panel of 270 companies from various industries were asked to score each reason out of 5 (5=critically important). The figures are an average score

> *"Some call centres have been developed from the present forwards, not the future backwards. Some, though, have thought 'we want to be doing this in five years, how do we get there and what are the implications on my brand?'"*
> **Outsourcing call centre agency**

The Henley Centre has characterised the development of call centres based on the different strategies underpinning a company's decision to invest – in other words, by asking the question: what objective did it have at the outset?

Are there any similarities between the objectives that drove the development of call centres and those that are driving the current development of digital interactive strategies? Research undertaken by the London Business School shows that indeed there *are* similarities in the drivers. For example, having a web presence is seen by some companies as essential (somewhat akin to keeping up with the Jones's); others see the Web as a means to provide additional customer service, and others as a strategy to cut costs.

Thus, the four categories of call centres can be used to provide insight into companies' approach to using new digital interactive media.

- **Reactive second movers** – The Henley Centre believes that the majority of mainstream companies are currently adopting a second-mover approach, waiting to see what opportunities and threats the first movers uncover. They will be testing web platforms and/or digital TV but will be cautious about taking any risks. Some, for example W H Smith and many FMCG companies, may have reacted too early to competitive moves and possibly have fallen into the trap of 'bolting-on' a new channel and not integrating it into the whole organisation.

- **Cost cutters** – low-cost airlines and financial services companies can be characterised by this typology, as most are implementing Internet-based strategies driven by the desire to cut costs.

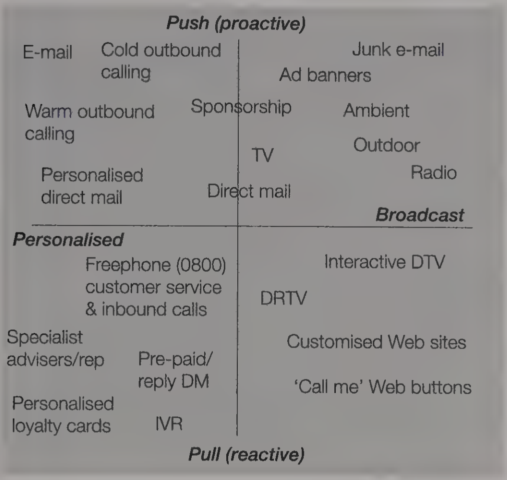
- **All that we do** – companies that have adopted digital interactive media as their sole channel, such as Amazon.com and Travelocity, fall into this category. We would also include mail order companies with this group. They have evolved their telephone offer (from mail order) in a measured way, using technology as and when it has been needed. The Henley Centre expects that they will also evolve into digital in this way.

- **Risk takers** – these are the first-movers, the companies that have developed a digital interactive channel alongside existing ones, and have shown innovative and entrepreneurial flare in doing so. Companies that have taken such a risk include Diesel, RoughGuides and Charles Schwab.

So…

Can you identify your business in any of these typologies?

Figure 6.13 How do businesses communicate?



Source: The Henley Centre, based on Rex Briggs

What lessons can be learned from the call centre experience?

Let us consider first the question: "why do you have the channels you currently have, and why are you considering new ones?" Obviously, the answer is to do business, to sell, make contact, receive contact, market, advertise, and so on. However, the way that the different distribution and communications channels can be used varies. Some are more push-oriented (proactive), whilst others more suitable to pull (reactive) techniques.

What is vital, and often forgotten, is that all of these methods of communication, whether proactive or reactive, have to be considered **as a whole** – hence the importance of clarifying why you are going down the routes you have chosen. Whomever you are talking to (or selling to) you have to convey your brand consistently, maintain the relationship at the same level and deliver the right message through every point of contact.

"No one really has yet considered the Internet/Web as part of the whole service-offer."
Product development manager, outsourcing agency

"The cost of running a decent interactive business is much more than people think because it's about how you integrate ***all*** *of the customer experiences. And you cannot forget that you are having to add to something that's already secure."*
Commercial director, home shopping company

One of the first lessons from the evolution of call centres is that your business has to consider the impact of the new channels on the **whole** organisation.

Many companies totally underestimated the success of their new channel and did not have either the technology or the staff in place to meet the avalanche of phone calls. Therefore, they had to react in a way that had an impact on the company as a whole. Some implemented expensive technology earlier than planned; others had to pull back from the original customer offer.

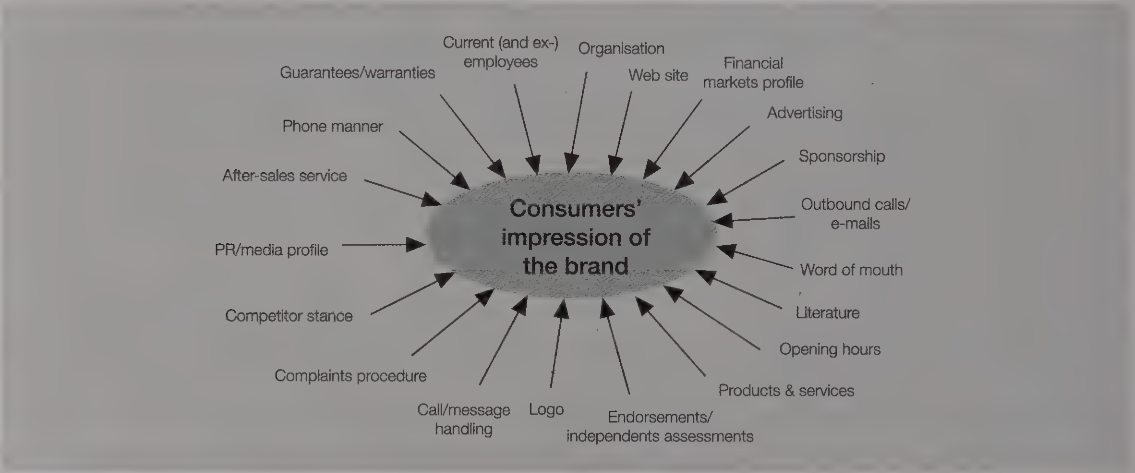
- Take the example of a supermarket phone home-shopping service. When it first started it allowed ordering between 8.00 am and 10.00 pm, every day of the week. Now, the phone lines are open between 9.00 am and 8.00 pm and not on Sundays. did they underestimate the demand for this service?

First movers have always had to contend with 'experimenting' consumers – people who try out a new service just for the sake of it. In *Planning For Consumer Change,* we call this characteristic 'homo ludens', meaning '(wo)man the player'. You are very likely to come across 'homo ludens' with any new channel that you offer. Since 'players' can become genuine customers, they have to be 'humoured' and supported. This requires resources; the cost-benefit can be hard to see at the time, and therefore justify to the board. You might have to consider ways of assessing the sincerity of your customers.

The importance of managing customer contacts

It is now a well-established fact that, if someone experiences excellent telephone service, they are highly likely to recommend the provider of that service to someone else. Conversely, poor service can quickly damage a company's reputation and bottom-line. Such understanding has led to the call centre industry developing best practice for customer contact and care.

Figure 6.14 Every part of the organisation has its role to play



Source: The Henley Centre

"It's very important that consumers do not feel that they are talking to a black hole – there is always the potential for a badly-managed site to damage the brand."
Product development manager, financial services

"Why go on strike when you can destroy the company through surly service."
Call centre manager

The work The Henley Centre has done with companies on the subject of Teleculture has given rise to some simple, but fundamental, business practices to govern how companies manage customer contact. At the heart of these practices is the notion that the employees who deal with customer contact – in whatever form it might be, whether they are front-of-house, back-of-house – all act as brand managers.

"Every single employee of our business, whether they come into direct contact with customers or not, needs to be an embodiment of our brand. A bad experience with any telesales rep can undermine millions of dollars of advertising."
Marketing manager, Travel company

How does this learning translate into the new digital interactive environment? What does a company have to do to ensure their electronic customers remain advocates of their brand?

As we have seen in the section on 'Understanding the Internet', e-mail is currently a major reason for adopting the Internet. It is important, therefore, that e-mail is part of your initial contact strategy. How should you manage and use e-mail – both inbound and outbound? What is best practice?

"We answer e-mails within 48 hours, but if they are routed to, say, customer service, then the response will be quicker because the culture is there. Other departments that get e-mails don't have the same attitude to customer care."
Advertising manager, retail company

"Our standard turnaround on e-mail response is 24 hours."
Manager, call centre agency

"I have been waiting for 2 weeks now for a reply. I think they got the e-mail - I haven't received an error message."
Consumer focus groups, 1998

In the main, companies are now adept at handling telephone calls (however, this is by no means universal – some still have a long way to go). Most businesses have either not begun to address the question of how to manage e-mail contact, or do not have an adequate policy in this area. According to Forrester Research in the US, few Fortune 1000 companies have clearcut e-mail strategies, despite having clearly mapped-out telephone contact strategies. This begs the question: did these businesses consider an holistic approach to customer contact at the outset?

Developing best practices for customer contact should not only cover speed of response, but also the overall quality of the 'experience'.

- Let's take another example. When registering for access to a web site, Miss Jane Smith is asked for all sorts of personal details, including the basics of Christian name, surname, and title. When her registration is accepted, she is greeted with **"Welcome Smith"**. This is hardly welcoming, not very professional and, given that the appropriate information has been provided, is totally unnecessary. Furthermore, as we discussed earlier, reconciled customers can easily become resentful – in this case at the very first point of contact. Yet, if Miss Jane Smith calls into the call centre run by the same company, it is much more likely that she will be greeted politely.

"The single biggest issue is the synchronisation of the channels so that the information behind the experience is the same."
Commercial director, home shopping company

With digital interactive media (and other direct channels) the quality of the service blurs with, or is synonymous with, the actual offer from the company. The beauty of digital interactive media are that, in theory, they can satisfy the need for immediate satisfaction – be it the thirst for knowledge, information or retail therapy. Henley research has found that people's expectations **are** being raised by the ever-improving capabilities of the technology. However, expectations can easily be thwarted, causing frustration and disappointment.

- Take the following example. One morning on breakfast TV, there was a programme discussing a famous retail outlet and its wonderful web site, from which you could order clothes. Several hours later a viewer went to the web site, registered, filled in all of the details, requested the product only to be then informed that the "service is only available within the US"!

Of course, there are examples of well-designed, well thought-out, properly-functioning web sites: the point is that businesses must manage consumers' expectations and not let them down. The example below is fairly typical of how companies today fail to follow-through on the promise of digital interactive media – if the consumer is shopping on-line they will expect to be able to complete the transaction on-line, even if some choose not to do so because of security concerns.

"We offer on-line shopping, but no on-line credit card purchasing facility for on-line shopping."
Brand manager, retail company

Many of the areas where new digital channels can fall down and damage the reputation of a brand have already been encountered by companies who chose to use the telephone as a contact channel. Back in 1994, The Henley Centre identified simple guidelines to successful call handling – the '3 Cs' of convenience, cordiality and consistency. Taking these further, we can now talk about the '4 Ds' of digital delivery:

- **Delightful discourse:** Netiquette, just like all other verbal and written contact, has to be polite and professional.

- **Dependable delivery**: respond to all communications (eg, e-mail) to the best-practice standard.

- **Discreet use of data**: don't abuse the information given to you by your customers.

- **Don't disappoint:** manage the consumer's expectations, and don't let them down.

So...

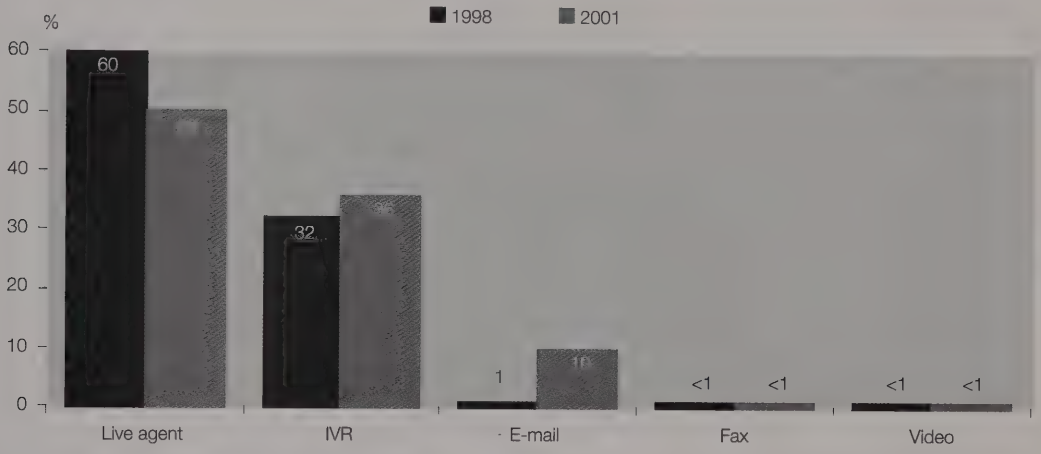
**Are there any lessons to be learned from your company's experience of call centres?
Have you developed a strategy for managing customer contacts, both on-line and off-line?**

6.9 "What implications are there internally?"

"We haven't solved the integration issue. The new media have to be blended with the rest of the company. Staff training and costs will go up. We will need to consider how to allocate spend within the call centre."
Commercial director, retail company

It goes without saying that the process of developing a digital strategy for your organisation will raise a lot of internal issues. We cannot possibly address all of these here, particularly as many will be specific to your own business. However, what we can do is highlight some questions that you should consider at the start of the process.

Figure 6.15 How customer contacts will be handled in the call centre % of 19 Fortune 1000 companies interviewed



Source: Forrester Research Inc.

"What will be the impact on our staff?"

Firstly, we consider human resources. If your organisation chooses to develop a digital interactive strategy, what will this mean for your staff? Will you reduce head count? Are your staff familiar with the technology or will they need training?

Experience shows that implementing new technologies in the call centre environment (for example, interactive voice response systems) rarely results in significant reduction in staffing levels. Instead, new technology is used to provide additional services for customers, or to cope with the increasing volume of calls. This is reinforced by the recent finding from Forrester Research that shows that US companies still believe that live agents will be the main customer contact interface over the next three years.

Rather than cutting staff, companies have had to deal with the need for more staff training to enable them to acquire the skills required to operate new technology. Instead of reducing costs, this has tended to add to the overall cost of the operation.

The skills needed to manage customer contact via digital interactive channels will be different. Staff will need more training, and, given the pace of technological change, this will be an ongoing requirement. In addition, a more interactive culture will need to be developed within the business.

"What level of service can we afford to provide?"

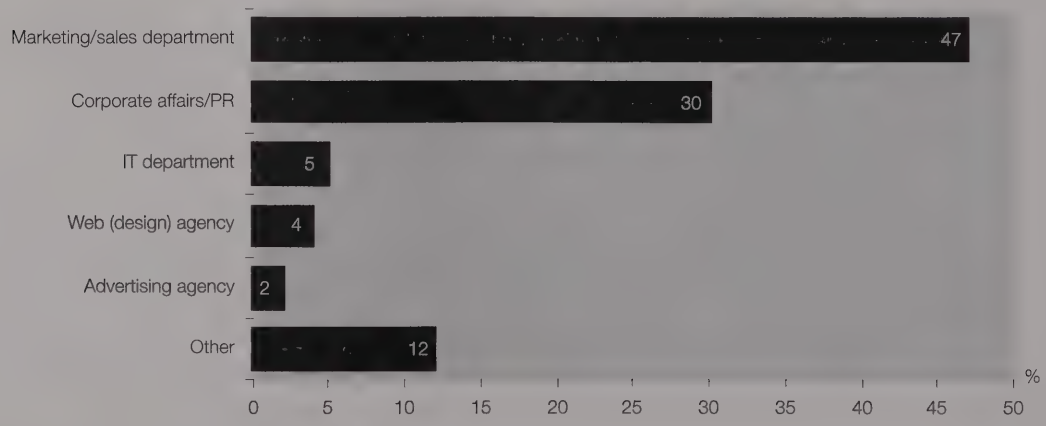
New digital interactive media offer the potential for greater personalisation of services. However, one-to-one service can be expensive to deliver. It is critical, therefore, to consider the question: "just how far should we go?"

"Let's face it, all the talk about customer service can go too far…in our business price is critical – so we've got to keep our expenditure down."
Manager in a financial services company

As the telephone has developed as a contact medium, some companies have started to re-evaluate the level of service that they should be providing. This is because costs have escalated. If the call centre is deemed a cost centre, an over-generous strategy is hard to justify. For example, are freephone numbers for helplines always appropriate or desirable? A greater focus on costs is resulting in companies segmenting callers in order to differentiate the level of service delivered. For example, filtering low value calls down an IVR system can dramatically reduce call-handling costs.

What strategy will you need to ensure that the costs of responding via digital interactive channels are kept under control?

Figure 6.16 Where should the responsibility for a Web site lie? Business research shows 47% of respondents thought it was marketing/sales responsibility



Source: London Business School, Future Media Research Programme July 1997
Base: A global expert panel of 270 companies from various industries

"E-mails are cheaper in theory, but at the moment they are more expensive than the phone in terms of time and labour."
Ad/Brand manager, retail

"Where should responsibility for digital interactive media sit within the organisation?"

You must consider where responsibility for the digital interface should sit within the organisation. A recent London Business School survey found that most companies believe that the responsibility for managing the web site, and even for the development of the web site itself, should reside with the marketing department, rather than the IT department.

Our interviews for Media Futures 1999 indicate that there is no standard practice on this matter. In some companies, the Internet and digital TV interfaces still reside within the IT department – this may prove to be detrimental to the commercial success of the channel.

"Prior to a year ago, our technical department ran our Internet site. As a result, it was devoid of brand and content."
Advertising and brand manager, retail company

A similar debate has been taking place for many years within the call centre industry. There is no textbook answer – much depends on the typology of the call centre, how it has developed, whether the board has bought-into the call centre operation, whether the marketing and IT departments talk with each other, and so on.

"We haven't built the customer relationship properly mainly because of the IT/marketing divide. We wanted to incorporate our loyalty programme into the offer – but IT said it wasn't priority –so it hasn't been done."
Advertising and brand manager, retail company

So…

Don't underestimate the impact of new channels on your business

Have you developed a business case for digital interactive media?
…and has the strategy got buy-in from the board?
Will the new channels be managed as a profit or cost centre?
What are the implications for human resources, staff training and so on?
Where will the responsibility for the digital interface sit?
… and will it be integrated with the responsibility for your existing channels?

6.10 “How will new media impact on marketing communications?”

The immediate impact of a new medium is to change how, in a commercial sense, we see and use the existing media. History suggests that there is an adjustment lag when a new medium complements, indeed directly copies, the techniques, learnings and objectives of previous media before finding its own way. The advent of television in the late 1940s is a case in point.

The advent of TV

In its first eight to ten years, television aped the advertising function of radio by copying the latter’s advertising format of the day – the company-sponsored programme. By the late 1950s, this had changed. The network channels had realised that more advertising revenue could be derived through multiple advertising and so discouraged single sponsorship. And so the advertising agency as we know it was born to create the ads and to negotiate the media buying.

This rather simple tale might, at first glance, appear to suggest the demise of radio. This, as we know, did not happen. The nature of radio listening changed to accommodate both changing lifestyles and listening – because of a new ‘competitor’ medium. Radio bounced back, by reinventing its advertising format and it did so by taking on the TV multiple advertising models.

New interactive media will not mean the imminent demise of TV advertising, direct mail or, indeed, of the agencies which support these functions. However, the role these media and their respective agencies play will change as new interactive media impact on how clients view the media in the new digital world.

Ultimately, the question for the industry is how the arrival of digital interactive media will impact on the budget allocation and marketing mix of the major advertisers. So, what is the timeframe for these changes and what will these changes be?

- Using the creation of the first Web browser in 1993 as a starting point, a ten year time-frame (to 2003) will see significant changes in the practices of established media and their measurement and evaluation.

- The new media will change advertisers’ perceptions of the relative role, strengths and objectives of the other media, and so impact the practices of other media.

- The perceived relative cost-effectiveness of all other media will change as a new benchmark with which to measure their success or failure emerges.

- Within this timeframe, we will also see the beginnings of a shift in the allocation of marketing budgets away from traditional to newer forms of media.

These factors will have an impact over the five-year period of our forecast: they are already starting to bite. Other factors driving the re-evaluation of marketing communications are:

- The growing and natural competitiveness of markets and the ever-present search for new competitive advantage.

- The cost-conscious, low-inflation, low-growth environment. (Inflation is at its lowest level for 30 years and forecasts for increases in consumer expenditure are muted, while at the same time consumers demand ever-greater value.) The result is an increased emphasis within all functions, not just marketing, on cost-effectiveness.

Such re-evaluation represents a change for the better for you and your business. It reinforces the need to clarify the strengths and weaknesses of the different media within the marketing mix, the precise role for each medium, and how they support each other within the mix.

What about the format and content of advertising?

As we have previously argued, the future is one of a multiplicity of channels working alongside each other. What this will require is greater integration of the marketing message, creative execution and media planning. Of course, all of this hinges on your strategic objectives, your marketing objectives and your brand values.

Digital interactive media will create new techniques and formats. These new techniques and formats will trickle down to impact on the established media. In particular, the content and format of screen-based advertising will begin to change.

- The Media Futures 1999 chapter 'TV: A Digital Revolution?' has already discussed the re-evaluation of the role of sponsorship both in relation to TV programmes and the Internet.

- This has been brought about not only by the advent of a new technology, but also by the search for cost-effective and impactful alternatives to traditional advertising.

Digital interactive media will also give birth to new advertising formats. Some have already arrived:

- 'Experiential' advertising, where the consumer can experience ownership or use of the product or service. Examples include E*Trade's Internet facility which allows the 'ghost' ownership of a personally selected share portfolio which can be notionally traded and fictional profits and losses monitored. Another example is The Gap's site where the consumer can again notionally mix and match outfits to achieve a desired look whilst greatly facilitating multiple product purchase.

- The 'transactional' oriented ad which goes straight for the jugular and invites direct purchase, or at least provides a considerable amount of information to greatly facilitate a potential purchase.

What about the metrics and cost-effectiveness of new media?

While very dramatic shifts in the marketing budget allocated to various media are beyond our forecast period, the obvious questions about the relative cost-effectiveness and pricing structure of the new media are already being asked.

"What do brand managers really want to know when they decide to invest on-line? They want and need to know that the people they are reaching have economic value and that reaching them on-line is an effective use of their budget."
Rex Briggs, Millward Brown Interactive, 'A road map for on-line marketing strategy', *Admap*, March 1998

The Internet's ability and credibility to genuinely improve the measurement of advertising effectiveness has yet to be established.

- Yes, the Internet can track 'clickthrough', page views and leads generated *in real time.* These measures may be more timely than those that went before, but are they the right measures?

- For example, 'clickthrough' is no better barometer of brand perception than CPM. In fact, research by Millward Brown has established that banner exposure is, on average, significantly greater in value than clickthrough.

The Internet's arrival has opened a new debate about how media should be priced. While the evolution of appropriate metrics will take some time, new pricing models are likely to emerge earlier, driven by an ever more competitive environment.

- New pricing structures are already beginning to define themselves – pay-per-clickthrough, pay-per-lead, pay-per-transaction, pay-per-dollar spend and a combination of these with CPM.

- Another model is price-per-exposure, ie, a rate card based on CPM for those Internet ads seeking to generate awareness.

Advertisers seeking greater value for money are already forcing through these changes. For example, Proctor & Gamble in particular has been pushing the idea of pay-per-clickthrough.

This suggests a future within our forecast period where pricing is multi-tiered and based on specific objectives and commercial results. What is even more fundamental is that this suggests the **sharing of risk** between advertisers, agencies and probably site owners.

So...

Are you re-evaluating the role and objectives of your marketing spend?
Are you investigating new advertising formats and techniques?
Are you experimenting with new models for measuring and paying for media?

6.11 "Is the future secure for agencies?"

The advertising industry cannot rest on its laurels. The potential power shift from agencies to advertisers, and the possibility of the disintermediation of the agency has already been dealt with in 'TV: A Digital Revolution?' Our view is that this Armageddon scenario is very unlikely to occur in the medium term.

The agencies have a breathing space to adjust to change. The changes they will have to embrace are significant. They will have to be recognised by your business too.

- One way or another the market is going to get more competitive. While total aggregate expenditure may well stay the same, margins are going to be squeezed.

- In the medium term, the pricing model in the various media industries is likely to change to a more results-based arrangement that involves shared risk.

- This will open the door to new entrants with skills in interactive media who are more willing than the established agencies to embrace this risk-based model.

- The new emphasis on accountability and cost-competitiveness is happening in conjunction with a potential increase in the fragmentation of audiences. A possible result is that only the 'big' advertisers will be in a position to bid for the key advertising spots, with more and more agencies chasing fewer and fewer big advertising budgets.

- To secure their future, old media will have to beat new media at their own game.

If agencies want to protect their revenue streams, the obvious action is to acquire new media skills. Their own advertisers have been asking them to do so for some time. This means acquiring the graphic and technical skills that are currently the core of the new media offer. In the longer term, they need to add value to these skills with a superior understanding of marketing communications, marketing and media planning as well as creative and copy ability.

Our focus on a five-year forecasting period should not disguise the longer-term fundamental changes which the new media will introduce to the economics of marketing. In effect, many of the accepted economics in the advertising world will be inverted.

- For example, on the Internet, while the creative cost may be relatively large, unlike traditional advertising, the media costs are negligible. This suggests the loss of a valuable income stream from media-buying commission for the agencies that would normally cover a significant proportion of fixed costs. So negotiating retainer compensation based on clickthrough, page views or leads generated may not be so unappetising after all.

So...

Total disintermediation of the agency is unlikely in the medium term
Agencies will need to acquire new media skills
Pricing models will be more results-based and involve shared risk
The market will be more competitive than ever, so margins will be squeezed

6.12 "How will digital interactive media impact on branding?"

The role of digital interactive media in building brand is not yet clear. According to Esther Dyson, the Internet has the ability to become intrinsic to enhancing the value of the product, service or brand, or ideally all three:

"If a brand is a promise, as pundits tell us, then the Net is a good place to deliver on a promise, not just to make one. The Net lets you do more than create needs and desires; it lets you satisfy needs and desires, whether by transactions and personal specifications for physical products, or actual delivery of information products and value-added."
Esther Dyson, 'How to advertise on the Net? Maybe it's the wrong question', September 1998

The 'Communities and Marketing' chapter of Media Futures 1999, provides another illustration of the rich new types of customer relationships that are possible using the interactive and communications capabilities of the Internet. Such a vision for the future of branding is not yet commonly accepted, however. Instead, the field of vision is limited by senior marketers' reluctance to see the role of digital interactive media in brand building.

The Henley Centre believes that companies cannot afford to remain complacent or short-sighted for much longer. In our view, the current role of the Internet in branding is less about awareness generation and more about trust enhancement, relationship development and service delivery. Digital interactive media and branding have both 'come of age' at much the same time.

egg: Individual
Money Matters

- The features and themes which characterise this decade – the emergence of personal risk, job insecurity, growing income unpredictability, time pressure and the explosion of choice have conspired to reinforce the need for brands.

- It's not just consumers that have become multi-faceted. So too have brands and what consumers expect of them. Once it was about awareness and aspiration, now it's about trust and relationship.

If a brand is a promise, then trusting that brand is the result of the consistent delivery of the promise. Trust, then, is a consequence. For organisations where trust has been eroded, it is either because the 'trust promise' was not delivered on, or because the promise was no longer relevant.

There is another factor that we need to consider in relation to trust: the fact that it needs to be personal and specific to the individual. The 'what's in it for me' element has to be up-front. Brands need to be capable of responding to the individual in 'my' multi-faceted world.

Traditionally, marketers fear that consumers will do what comes naturally to them, that is, interpret the brand in different ways. One of the more frightening aspects of the Internet for the brand manager is that it offers the consumer the opportunity to interpret the brand for themselves within the limits of whatever elements of interaction or potential customisation are open to them.

It is precisely this opportunity that marketers need to address. Brand marketers must begin to assess how an Internet or digital TV presence can add value to their brand and add value to the brand-consumer relationship. The challenge is to identify which elements of interactivity and customisation are of most relevance and value to your customers.

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Media Futures 99 examines the rapid pace of change and growth within the media arena over the next five years, as digital media drive innovation across the whole economy and in every industry. Competition will intensify and choices for consumers will increase exponentially.